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China Report

ECONOMIC AFFAIRS

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CHINA REPORT

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NATIONAL POLICY AND ISSUES

INTERNATIONAL COMPARISON OF CHINA'S TERTIARY INDUSTRIES

Shanghai SHANGHAI JINGJI [SHANGHAI'S ECONOMY] in Chinese No 2, 15 Aug 85
pp 20, 24

[Article by Zhu Qingfang [2612 1987 5364], of the Chinese Academy of Social Sciences: "Viewing the Gap Between Our Country's Tertiary Industries and Those of Other Countries of the World from Relevant Figures"]

[Text] During the 20 years from 1960 to 1980, the proportion of people employed in the primary industries of economically developed countries decreased from the original 18 percent to 6 percent; those in the secondary industries remained unchanged, at about 38 percent; but that of those in the tertiary industries increased from 44 percent to 56 percent. The proportion in the tertiary industries in China increased from 23 percent to 34 percent, and those in the tertiary industries of the low-income countries also increased from 11 percent to 16 percent.

During the 31 years from 1952 to 1983 in our country, the proportion of laborers engaged in tertiary industries increased from 9 percent to 13 percent, 107th among 126 countries and areas of the world today, lower than that of those in Korea, Vietnam, India, Laos, and Bangladesh.

Among the world's large cities, the proportion of people employed in the tertiary industries usually stands at 60-70 percent, with New York reaching as high as 83 percent, London, Tokyo and Paris also 70 percent or above, whereas our three big municipalities of Beijing, Tianjin and Shanghai remaining respectively at 33 percent, 27 percent and 24 percent.

During these past 20 years, among every 10 newly added laborers in the United States 9 have been those engaged in the tertiary industries; newly added employees in Japan have almost all belonged to the tertiary industries. And during the 31 years from 1952 to 1983 in our country, the tertiary industries have added only 1.6 among every 10 newly employed laborers.

The investment made by our country in the tertiary industries has also tended to be on the lower side. The investment of the Soviet Union in the tertiary

industries has always made up 40 percent or more of its total investment; our investment in the tertiary industries, out of that invested in the capital construction of enterprises owned by the whole people, has made up about 34.5 percent.

In the developed countries, about 61 percent of their overall national output value has come from the tertiary industries, an increase of 7 percent over the 54 percent of 1960. In the revenues of the medium-income countries today, those of the tertiary industries make up about 47 percent of their overall national output value; in the low-income countries, the proportion is about 40 percent. The proportion in the overall national output value made up by revenues from the tertiary industries in our country has decreased from the 28 percent of 1952 to 18 percent, occupying the penultimate position among the world's 126 countries and areas, higher only than that of Uganda.

In 1983, the average per capita creation of wealth by the tertiary industries in our country was over 1,600 yuan (about \$840), only half as much when compared to that by the secondary industries, whereas in the developed countries that of the tertiary industries was higher than that of the secondary industries. For example, in the 6 countries of the United States, Japan, Britain, France, Germany, and Italy, the average per capita creation of wealth by the tertiary industries was \$26,400, 9 percent higher than that by the \$24,100 by the secondary industries. Our country's current level, even if compared only to developing countries, makes up only as much as 30 percent of theirs.

The reasons why our tertiary industries have not developed very well are manifold. Because for a long time we have been subjected to the impact of "Leftist" ideas which one-sidedly stressed production and looked down upon consumption, this has caused our investment in the tertiary industries remaining on the lower side. Meanwhile, we have also excessively and prematurely removed and restricted the collective and individual economies that made up a considerable proportion of our tertiary industries; medical and public health services have been treated as charity and welfare undertakings, so that criteria for collecting fees have been too low, thereby causing these departments to lack internal momentum for further development. Besides, our commodity economy has not developed well; for a long time the elevation of the level of living standards for our residents has not been fast enough; things like these have all affected the development of our tertiary industries.

This backward state of our tertiary industries precisely serves to illustrate that their potential for development is very great. If we can reach the proportion of 16 percent in the number of people employed in the tertiary industries among all those employed, like in the low-income countries in general, we would be able to provide employment opportunities for 13.8 million people; if calculated according to the proportion of 34 percent of the medium-income countries, we would be able to add 96 million people to our employed. After economic restructuring in the countryside, there would be about 100 million people departing from the planting and breeding undertakings; after economic restructuring in the cities, there would be a surplus of over 10 million laborers from the industrial enterprises; such surplus laborers from the primary and secondary industries are bound to be transferred to the

tertiary industries. At the same time, development of our commodity economy and elevation of people's living standards are also providing a broader market for our tertiary industries. Today, the importance and necessity of developing our tertiary industries have already become gradually recognized by people; we can foresee that there will be a new situation of development by great strides emerging from our tertiary industries, with the gap between us and the world's other countries gradually narrowed.

Table 1.

Percentage(%) of Number of People Employed in Tertiary Industries Among All the Employed in the World's Large Cities

Hamburg (1970) 65.1	Los Angeles (1973) 71.8
New Delhi (1977) 65.4	Chicago (1979) 65.6
Tokyo (1981) 71.1	Nagoya (1981) 72.2
Osaka (1981) 71.8	New York (1981) 83.0
Philadelphia (1981) 79.7	Rome (1981) 78.6
Paris (1981) 74.6	Singapore (1981) 63
Melbourne (1981) 68.7	

Table 2.

Percentage (%) of Number of People Employed in Tertiary Industries Among All the Employed in Part of the Large and Medium Cities in the Country in 1983

Beijing 33.3	Tianjin 26.5	Shanghai 23.9
Canton 27.6	Wuhan 28.8	Shenyang 25.8
Changdu 12.1	Chongqing 12.4	Qingdao 28.3
Dalian 23.7	Anshan 20.5	Wuxi 24.7
Jilin 14.6	Xiamen 20.0	

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CSO: 4006/528

NATIONAL POLICY AND ISSUES

GUANGMING RIBAO ON DEMOCRACY, MODERNIZATION

HK251201 Beijing GUANGMING RIBAO in Chinese 7 Jun 86 p 1

[Commentator's article: "Socialist Democracy and Socialist Modernization"]

[Text] Comrade Deng Xiaoping pointed out in 1979: "Without democracy, there will be no socialism, there will be no socialist modernization." ("Selected Works of Deng Xiaoping," p 154) Through our efforts over the past years, we have achieved great successes in promoting socialist democracy. However, there is still some confused understanding at present on the question of democracy. Following are two main expressions of this: 1) Some people hold that our socialist democracy is the best and most perfect democracy which demands no further development; once they hear people talking about democracy, they think that these people are trying to negate our socialist democracy. 2) Some people do not have a sufficient understanding of the great role played by socialist democracy in our modernization drive, denying that democracy should be further developed in the building of the four modernizations. If these confusions are not eliminated, our effort to further develop socialist democracy will certainly be obstructed.

Democracy is a kind of political system and has a certain course of development. According to the Marxist theory of the state, this course of development is: From the autocratic system to bourgeois democracy, from bourgeois democracy to proletarian democracy, and from proletarian democracy to no democracy at all. Proletarian democracy, which is based on the public ownership of the means of production, is more realistic and covers a broader field than bourgeois democracy, which is based on the private ownership of the means of production. Therefore, Lenin said that socialist democracy is a "democracy at a higher level," which is an important symbol of the superiority of the socialist system. However, when we say socialist democracy is one at a higher level, we refer to the type of democracy; but with regard to the course of development, this kind of high-level democracy should also follow a course of development from imperfect to perfect and from less advanced to more advanced, just like the course of development of socialism. At present, China's socialism is still not at an advanced level, and China's socialist democracy is not at an advanced level either. In our political life, insufficient democracy exists both in principle and in practice. In particular, since the feudal autocratic system lasted for

more than 2,000 years in China and there was not a complete course of bourgeois revolution in our country, "old China left us more feudal and autocratic traditions than democratic and [word indistinct] traditions."

("Selected Works of Deng Xiaoping," p 262) This was clearly manifested in the practice in Mao Zedong's later years. In addition, Lin Biao and the gang of four utterly destroyed democracy during that period. Thus, China's socialist democracy became more imperfect and the management systems did not correspond with the needs. In certain localities, there is no democracy even in form. Public opinion cannot reach the higher levels and the instructions of the higher authorities are not appropriately passed down to the grassroots levels. This is incompatible with the modernization program.

We are now building socialist modernization with distinctive Chinese characteristics. This has a complete and specific meaning, that is, "to catch up with the developed capitalist countries in the economic field, to create democracy that is more advanced and realistic than the capitalist countries in the political field, and to train and bring up more outstanding people than in these countries." ("Selected Works of Deng Xiaoping," p 282) In his report at the 12th CPC National Congress, Comrade Hu Yaobang also pointed out that the modernization we are now pursuing includes three aspects: A high degree of material civilization, a high degree of spiritual civilization, and a high degree of socialist democracy. They depend on and interact on each other in the construction of socialist modernizations. It would be a one-sided view to regard socialist modernization merely as strengthening the socialist economic system. Without the guarantee of a high degree of socialist democracy in the political field, without a high degree of socialist spiritual civilization, the modernization attained would not be socialist modernization.

To put it concretely, the roles played by socialist democracy in the building of socialist modernization can be summed up as follows: 1. Overstaffed organizations, overcentralized power, bureaucracy, the patriarchal system, and leading cadres abusing power to seek personal gains are the major defects of China's current political system. If these malpractices are not eliminated, economic reform and opening up will be out of the question and it will also be difficult to carry out the building of socialist spiritual civilization. To eliminate these malpractices most effectively, we should reform the political system and strengthen socialist democracy so that they will correspond with the reform of the economic structure. Only when the people really have the right to take part in management, make criticisms, and exercise supervision can we ensure that the government will be responsible to, and efficiently serve the people and that the various reforms will develop in an orientation conforming to the people's aspirations. The recent re-examination of the television drama "New Star" after it had been praised for some time was an example of this. China's future is not determined by having more honest and upright officials like Li Xiangnan [a character in the play], but by a perfect socialist democratic system, under which people may dismiss all incompetent or degenerate officials whenever necessary.

2. Socialist modernization will not be able to vigorously develop unless

the initiative and creativity of hundreds of millions of people are brought into full play. At present, the production responsibility system, the system of more pay for more work, and material rewards are important ways of arousing the initiative of the masses. However, they are not the only means. So long as we vigorously develop socialist democracy, let the masses take part in the management and supervision of their own units and state affairs, and make them realize that they are the masters of their own houses, the people will conscientiously and unreservedly give full play to their initiative and creativity. Such initiative and creativity will be the most powerful and endless sources of motivity for the modernization drive. 3. The policy of letting a hundred flowers blossom and a hundred schools of thought contend, and a good democratic atmosphere are the guarantee for the prosperity of socialist academic research and literary and artistic creation. Over the past 30 years or so, our party has accumulated successful experiences and has also made many mistakes on the question of freedom of academic research and creation. For this reason, when we commemorate the 30th anniversary of the double hundred policy today, it is important to reiterate the question of creating a spacious and harmonious environment for public opinion. We are convinced that the institutionalization and legalization of socialist democracy and its implementation in scientific, literature, and art circles will inevitably promote the development of socialist spiritual civilization. In short, "the building of socialist material and spiritual civilizations should be ensured and supported by the further development of socialist democracy. Building a high degree of socialist democracy is one of our fundamental targets and tasks." (Hu Yaobang: "Create a New Situation in Building Socialist Modernization")

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NATIONAL POLICY AND ISSUES

JINGJI YANJIU DISCUSSES SEVENTH 5-YEAR PLAN

HK200611 Beijing JINGJI YANJIU in Chinese No 4, 20 Apr 86 pp 3-9

[Article by Wang Jiye [3769 4480 2814] of the Economic Research Institute of the State Planning Commission: "Some Reflections on the Macroeconomic Aspects of the Seventh 5-Year Plan"--written in March 1986--passages within slantlines published in italics]

[Text] The Seventh 5-Year Plan (1986-1990) for our national economy and social development is put forward on the basis of the overall fulfillment of the Sixth 5-Year Plan. During the Sixth 5-Year Plan, our national economy increased steadily and persistently, the ratio relationship between light industry and heavy industry and the ratio relationship between accumulation and consumption basically tended to be appropriate, construction in science, education, and culture was strengthened, the economic results of our macroeconomy and microeconomy both took a turn for the better, the state financial revenue turned from decreases to increases, and the livelihood of the urban and the rural people both improved significantly. The reform in the rural areas had already scored spectacular victories, the reform in the cities unfolded comprehensively, the long-existing stereotyped and closed economic system was initially changed, and the entire economy was active and flourishing. All this was laid a good foundation and created favorable conditions for the development of the national economy and the society in the Seventh 5-Year Plan period.

At the same time, we should clearly see that in order to implement the Seventh 5-Year Plan, there are still contradictions in many aspects which need to be studied and resolved. Comparatively outstanding are the following three problems.

1. Correctly Handling the Relationship Between Reform, Construction and Livelihood

The principal tasks in the development of our national economy and society in the Seventh 5-Year Plan period are: to create favorable economic and social environments for the smooth progress of the reform, and basically lay a foundation for the socialist economic system with Chinese characteristics; maintain a continuous and steady growth for the economy, greatly strengthen the key construction projects and intellectual development and facilitate

technological transformations so as to make good preparations for the economic developments in the nineties; and continue to improve the people's livelihood in the cities and in the rural areas on the basis of development of production and enhancement of economic results. The tasks set out by the Seventh 5-Year Plan are both glorious and arduous, and their fulfillment entails extremely great efforts. This is because: First, in order to create a good economic environment for the reform, it is necessary to reach a basic balance between the general social supply and the general social demand, but it is not easy, in the short term, to overcome the present state of imbalance in which the general social demand significantly exceeds the general social supply. Second, in order to maintain the continuous and steady growth of the economy, the excessive speed of economic growth must be reduced to a proper level, but the existence of excessively high demand is always promoting the revival of the super-high speed. Third, in order to continue to improve the people's livelihood on the basis of developing production and enhancing economic results, it is necessary to drastically reduce material consumption and raise the quality of products, which is much more difficult than overcoming the decrease in financial revenue. Fourth, in order to continue to improve the people's livelihood, it is necessary to adjust the structure of the industries in accordance with the changes in the structure of consumption demand. bumper harvests have been recorded in recent years in our agricultural production, and the per capita possession of grain has increased considerably. However, the foundation in agriculture is still weak in association with the increase in population and the requirements in our national economy. The light industry has developed rather quickly, but the variety and quality of products are far from satisfying the people's needs in their rich and varied life. Furthermore, with respect to heavy industry, energy resources, transport, and the raw materials industry are still the "bottle neck" which inhibits the development of the economy, and in this respect, no short-term radical improvement is envisaged. The capability of earning foreign exchange in the export trade is not very strong, which cannot meet the requirements in the daily-increasing economic and technology exchanges with foreign countries. All these will directly or indirectly be expressed in relatively tense conditions in terms of capital and funds as well as materials during the Seventh 5-Year Plan period. Under this situation, it is necessary to seriously handle the relationships between reform, construction, and livelihood which are the main contents of the plan, so that they can be compatible with each other and promote each other's progress.

Fundamentally speaking, reform, construction, and livelihood are not contradictory. First, they are unified on the basis of the chain reaction created by the vitality of the reform. The vitality induced by the reform has become a strong motive force in motivating economic development; and the healthy development of the economy has provided a practical guarantee for improving the people's livelihood; and the people, from their personal experience, feel the urgency and necessity of reform, which makes the reform enjoy the extensive support of the masses. Second, they are unified on the basis of an adequate speed in economic growth. The fundamental aim of the reform is to develop the social productive forces. An adequate speed in economic growth is an important factor in evaluating the results of the reform, and is also a basic condition for the sustained growth of the economy and the improvement of the people's livelihood. Finally they are unified in the economic results.

Fundamentally speaking, reform can facilitate the enhancement of the economic results; the development of the economic construction should be based on the gradual enhancement of the economic results; and the improvement of the people's livelihood on the basis of enhancing the economic results can leave room for the successful handling of the relationship between accumulation and consumption and be beneficial to the harmonious development of the economy.

On the other hand, there are also contradictions between reform, construction, and livelihood. In the early stages of the reform, especially when the reform began by expanding the autonomous power of the enterprises and the area of distribution, the macroeconomic management failed to follow up immediately, and it was easy for people to seek speed in economic growth one-sidedly, which caused the general social demand to exceed the general social supply and aggravated the irrational aspects of the industrial structure and the product structure, leading to the so-called double imbalance in terms of the general quantity and structure.

Reform costs money, especially in the fields of wages reform and price reform. Although reform can enhance the economic results from a long-term point of view, which will provide funds for further reforms, this function is not obvious in the early stages, and it needs time to achieve support for reforms by enhancing the economic results.

In order to acquire a sustained strength for developing the economy, it is necessary to ensure the construction of the requisite key projects. However, key projects need substantial investment and a long construction cycle, and entail input without output for a considerable period of time, which will easily boost the accumulation rate and cause difficulties in comprehensively balancing the national economy. Of course, if viewed over longer period, key projects can and should yield greater economic results, not only regaining the investment, but also yielding profits. However, if the key projects cannot go into production after their completion because of lack of some component equipment, they will not be able to exploit their comprehensive production capacity but will aggravate the contradiction in terms of insufficient funds and materials. All these should be conscientiously treated in handling the relationship between reform, construction, and livelihood during the Seventh 5-Year Plan.

2. In Search of a Targeted Model of Planning System With Chinese Characteristics

It is an unprecedented attempt in the history of development of our planning work to incorporate the contents of reform in the Seventh 5-Year Plan. Since large-scale construction began in our country, the present Seventh 5-Year Plan is another mid-term plan with rich and comprehensive contents after the implementation of the First 5-Year Plan. Compared with the past 5-year plans, its primary feature is to attach the greatest importance to reform. During this period, it is planned to continue to carry out the reform vigorously, and further enliven the large and medium-sized enterprises owned by the whole people, so that they can acquire the ability of self-transformation and self-development; establish and perfect the socialist market system so as to facilitate the development of the socialist commodity economy; and gradually turn to a macroscopic management with indirect control as the main measure, and

make use of economic, legal, and necessary administrative measures to control and adjust the operations of the economy. In order to fulfill the great task of reform, it is very necessary to conscientiously seek for a targeted model of socialist economic system with Chinese characteristics, particularly a targeted model of the planning system in the reform.

The implementation of a planned commodity economy is the basic principle in guiding the reform of the planning system. With regard to the theoretical studies of the economy in our country, there are two practical interpretations regarding the planned commodity economy. One is to place great emphasis on the planned economy, incorporating the commodity economy, the market mechanism in particular, into the entire course of the operations of the economy, thus forming a targeted model of planned commodity economy with commodity economy or market mechanism. Another is to lay emphasis on the commodity economy, and to develop commodity production and commodity exchange in a planned way, thus forming a targeted model of planned commodity economy guided and controlled by the plan. If viewed from the relationship between plan and market, the former means the market infiltrating the plan, and the latter means the plan infiltrating into the market. Hence, they can be said to be two targeted models involving the infiltration of the plan and the market.

Here we do not intend to comment on the above two models from a theoretical point of view, but wish to put forward some problems for discussion which merit our attention no matter what model we are to adopt.

/1. The question concerning the proportionate development of the national economy./ The socialist economy must develop in proportion. This is true no matter how the planned commodity economy is interpreted. The key to this lies in how we interpret and realize the proportionate development. The following thesis is familiar to all of us: "Planning means practically a balance maintained constantly and consciously." (Lenin: "Non-critical Criticism," Complete Works of Lenin, vol 3, p 566) However, if planning is only regarded as equivalent to proportionate development, and proportionate development as relative quantitative balance in terms of important proportionate relationship in the national economy, the exploration and study of the inherent association of the economic operations will be neglected. The inherent association of the operations of the economy is quite regular, and is always in a relatively steady state if no great changes take place in the economic conditions. However, the proportionate quantitative relationship is not the same, and it varies with the changes of the political and economic tasks in different stages. In the past, the theories on planned economy emphasized the study of the quantitative aspects of the proportionate relationship, and the inherent association of the economic operations was not explored intensively or studied on the basis of the planning system. This is an important question in the present theoretical study of the reform of the planning system. On the other hand, the inherent association of the economic operations is essentially a relationship of economic interests. Under the condition of a planned commodity economy, the handling of the economic interests of various sectors cannot be separated from the relationship between commodity and currency as well as the market mechanism. If proportion-

ate development is simply regarded as equivalent to the quantitative relationship of proportion, the tendency will be to lay greater emphasis on directive plans and administrative measures and pay little attention to utilizing economic levers and expanding market adjustment, thereby hampering the incorporation of the relationship of commodity and currency and market mechanism into the whole course of the planned management and the conscious realization of the proportionate development of the national economy.

It is not an easy matter to develop the commodity economy in a planned way and realize proportionate development on the basis of public ownership. The fundamental law of the commodity economy is the law of value. The commodity value is determined by the requisite social labor time. Under the present condition, the exchange of commodities on the basis of value has to rely on the market and price. In this way, the utilization value of commodities and the realization of the value have to be affected or restrained by the demand-supply relations in the market, resulting in a fairly great blindness. The socialist market cannot eliminate this blindness completely, but it is possible to reduce this blindness to a minimum through the planned management of the market. The difficult point is how to achieve mutual adaptability and mutual promotion between planned management and the commodity economy and especially the market development, and how to both facilitate the development of the commodity economy and the expansion of the market and be beneficial to the balanced link of the important proportionate relations in the national economy. Of course, strengthening and perfecting macroeconomic control is an effective way, but the selection of the target and key points of the macroeconomic control as well as the arrangement and perfection of the control mechanism have to go through a process of investigation and exploration. In particular, the practical measures in realizing the macroeconomic control are not easy to map out. The macroeconomic control with indirect control as the main resort governs the commodity producers primarily through the market, the contradiction of control and counter-control will become prominent. If this is not handled well, both the further development of the commodity economy and the conscious proportionate development will be hampered.

/2. The question [word indistinct] the evaluation of the original planning system./ Is the original planning system completely wrong--and should it be thoroughly negated, or should part of it be retained for improvement and perfection? This is the question encountered by both of the two targeted modes. If part of it should be retained, can we assume that the main content for improvement should be the [word indistinct] the necessary financial resources, material resources, and manpower to carry out key construction and to realize macroscopic control and adjustment over the national economy? [Words indistinct] such as ours with a vast territory, an economy not very well developed, and the development not well balanced, key construction projects which have an important bearing on the state's economy and the people's livelihood should not be conducted by means of the free competition of capital and funds and their free transfers. Maintaining an adequate and requisite concentration is one method, on which we place great hopes, to strengthen our economic capabilities and give an impetus to our socialist construction. As for the existing waste in our key construction, the main problems consist of the overstretching and overexpansion of the projects as well as management pro-

blems such as the management system in the capital construction. Of course, we can have another idea, that is, to carry out key construction through capital competition and free transfer following the examples of Western countries, without concentrating the financial and material resources and manpower to carry out key construction, which is really unprecedented in our country. In this regard, a result that can be envisaged will be a very long process of key construction (particularly the concentration of capital and materials) accompanied by a great waste of social labor. Which of these two ways is more compatible with the conditions of our country has to be considered in terms of economic results and social results as well as how to enhance the strength of the state more rapidly.

/3. The question concerning the relationship between the balance of capital and the balance of materials./ Theoretically this is a relationship between the balance of value (currency) and the balance of the utilization of value (material objects). Value and utilization value as well as currency and material objects are two forms of the movement of the socialist expanded reproduction, and they possess both association and difference. Since they are two different forms, there should be contradictions between them. It is true that the theoretical study of the planned economy and the work of planned economy paid insufficient attention to the balance of value in the past, and more emphasis was laid on the balance of material objects, which should be improved, and particularly that balance of value should be given a more important place by the reform of the planning system; however, the importance and necessity of the balance of material objects should not be negated just because the balance of value is emphasized, nor should the contradictions between the balance of value and the balance of material objects be denied. The task of the planned management is to do a good job in handling these balances and make them act in coordination so that the national economy can be developed in a proportionate way both in terms of the form of value and in terms of the form of material objects.

/4. The problem concerning vertical association and lateral association./ In the original planning system, vertical association was based mainly on the departmental management, and lateral association was ill-developed, resulting in the contradictions between different regions and places. However, the turning of vertical association based mainly on departments to the development of lateral association so as to meet the needs of turning the direct control in macromanagement to indirect control as the main resort does not mean the abolition of vertical association, but rather it necessitates the discovery of a new form of vertical association. With the development of the socialist commodity economy, the market is daily expanding, and lateral association is being strengthened and developed. Developing lateral association is an irresistible trend and is the objective need in planning the commodity economy, having many advantages. From the viewpoint of planned management, developing lateral association can complement those things vertical planned management lacks and break through the hindrance of boundaries, further expose the contradictions of the original planning system, and find out the concrete direction and ways for the reform in the next stage. For example, while developing lateral association, how to manage investment will vertically so as to maintain the control of investment: how to do a good job in achieving a comprehensive balance so as to avoid unnecessary repetition in

construction; how to adjust the distribution of revenue properly so that the localities producing raw materials can obtain practical benefits; and so on. The above are problems which will be encountered in developing lateral association, and they should also be studied and solved in handling the vertical operations of the economy. In the planned commodity economy, vertical association and lateral association are closely interwoven and complement each other. Therefore, in exploring the targeted model in reforming the planning system, great importance must be attached to the development of lateral association while paying attention to coordination of vertical association, thus facilitating the planned development of the socialist commodity economy and market.

/5. The Question Concerning the Socialist Market./ The development of the commodity economy necessitates the opening up and expansion of the market. The market is the sum of supply and demand as well as the sellers and the buyers. Theoretically speaking, the prerequisite for developing the market is the expansion of the social division of labor, the intensity of the market development marks the degree of dependence of the social production on the social exchange, and the extent of the market development reflects the degree of socialization of production. The trend and process of the development of our socialist market should be investigated and studied in relation to China's practical conditions. On the basis of the public ownership and under the present condition that materials are in short supply, the formation of the market will take a considerable time and will encounter problems which did not arise in other countries. Enough attention must be given to this in utilizing our market mechanism. The main mechanism of the market is the price, and the price changes reflect the state of demand and supply. Relaxing control over prices will facilitate the expansion of the commodity market. A narrow market is caused by the irrational distribution of the resources (products). Relaxing control over prices can increase supply rather rapidly and improve the relations of demand and supply, enabling the products to become commodities and enter the market. However, it should be noted that for those products requiring a longer cycle of production, relaxing the price may not lead to an increase in supply and may cause the price to rise sharply if things are not handled properly. A similar situation will emerge if the price is relaxed for those commodities with limited resources and great demand, even leading to the tendency of non-currency exchange. In other circumstances, some agricultural and sideline products cannot become commodities because of poor information, backward transportation and communications, and poor channels of circulation. Under these conditions, utilizing the mechanism of the developed countries for adjusting market supply and demand often leads to unexpected problems, such as distorted reactions to the market mechanism. Our market must be developed in a planned way. Planning should guide, manage, and control the market, and should at the same time develop the market vigorously. Therefore, an important and difficult problem in reforming the planning system of our economy is the discovery of an adequate way to organically combine the planning mechanism with the market mechanism, so that the socialist orientation of the market can be ensured while enlivening the market.

/6. The question of ownership./ The two interpretations of the planned commodity economy and the two ideas on the targeted model of reforming the

planning system will ultimately come across the question of ownership. All of us admit that the basis of the planned commodity economy is the socialist public ownership, and that the development of the commodity economy must be beneficial to the consolidation and development of the socialist public ownership. However, the socialist public ownership consists of two basic forms, that is, ownership by the whole people and collective ownership. With regard to the ownership by the whole people, small enterprises will be easier to deal with, because they can be turned into collective operations through leasing or contracting. The main problem lies in dealing with the large and medium-sized enterprises. At present, an unequal condition of competition exists between the large and medium-sized enterprises owned by the whole people and the enterprises owned by the collective in terms of pricing, taxation, and other aspects. In addition, because the power, responsibility, and interests of these large and medium-sized enterprises owned by the whole people have not combined well, they are in a rather difficult state. What is the way out? Can we assume that the only way out is for them to adopt the form of collective ownership or contracting by the collective? The large and medium-sized enterprises owned by the whole people, the large ones in particular, are vital to the economic lifelines and strength of our country and they are established through the strenuous efforts and hard labor of the people. Therefore, in terms of rights and interests, it is unreasonable to contract them to only a portion of the population (the collective). Hence, the problem lies in another side: That is, what composition our socialist public ownership should have, what proportion the economic activities of our enterprises owned by the whole people should enjoy, by what means the operations and management of these enterprises can improve and gradually set up on the road of self-transformation and self-development, and how to develop the advantages of these enterprises so that they can lead and guide the collective economy and the individual economy to advance in the direction of socialism.

3. Step on a New Road of Developing the Socialist Economy

In the Sixth 5-Year Plan period, our country began to find a new way of developing the socialist economy. Its basic points are: the speed is rather practical, the economic results are quite good, and the people can get more practical benefits. If our economy is to truly take this new road, great efforts are still needed in doing well various aspects of work. An important point is to handle well the relationship between speed, the proportion, and the economic results.

How can we make the speed of our economic growth practical? What we call a practical speed means an adequate speed without any false and repetitive calculations. An adequate speed must be a speed with some leeway. In the next 5 years, many factors will affect or restrain the economic growth. Some factors can be envisaged with fair accuracy but some are rather uncertain, and even those factors which can be envisaged may change unexpectedly in the course of execution. An economic growth speed with some leeway will facilitate the adjustment of material distribution and the balance of capital distribution between annual plans, so that the economy can develop continuously and steadily. The rate of economic growth set out in the Seventh 5-Year Plan is slightly higher than that in the Sixth 5-Year Plan, but is in fact much lower than the

practical growth rate in the Sixth 5-Year Plan, especially so when compared with the rate in 1985. This is determined by the main tasks of the Seventh 5-Year Plan. An adequate rate of economic growth should be a speed that can support reform, ensure key construction, and improve the people's living standards.

Will the rate of economic growth set out in the Seventh 5-Year Plan lead to a sagging of the economy? This question is attracting a lot of attention. At the beginning of the Sixth 5-Year Plan, people also harbored similar worries. Then, we intentionally slowed down the rate of economic growth so that we could concentrate our efforts on adjusting the national economy and restoring the proper level of ration relationship between agriculture, light industry, and heavy industry while turning our economic work to the path of enhancing the economic results. The above targets were basically achieved in executing the Sixth 5-Year Plan. The remaining problems were: The product structure could not meet the changes in the consumption structure; economic results were not up to our expectations although some improvement had been made; material consumption in the social production did not record a decrease; and the situation of poor product quality had not been fundamentally changed. Although the speed set out in the Seventh 5-Year Plan is lower than the practical speed in the Sixth 5-Year Plan, it is beneficial to inhibiting the trend of pursuing speed one-sidedly, to concentrating our efforts on adjusting the structure of industries and enhancing the economic results, and to turning our national economy to the path of expanded reproduction utilizing inherent capabilities. So long as we can do a good job in adjusting the industrial structure and enhancing the economic results and maintain an adequate rate of economic growth, our economy will not shrink, but will possibly attain a benign cycle, laying a solid foundation for the economic development in the 1990's. That is to say, whether the economy will shrink depends not only on the speed of economic growth, but also on the rationality of the industrial structure and the degree of enhancement of the economic results. The economic development during the Sixth 5-Year Plan period once again proves that it is easy to attain a high speed at a certain time and in a certain place, but it is difficult to maintain a continuous high growth rate. If the industrial structure is irrational and the economic results are low, not only will very high speed be hard to maintain, but also we can hardly say that the economy can attain a really high speed of development.

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The ratio of accumulation and consumption is an important relationship in the national economy, and is a main standard for evaluating whether the entire economy is steady and enjoys coordinated development. The accumulation rate stipulated in the Seventh 5-Year Plan is not low, which will lead to a prominent contradiction between speed and ratio. The speed set out in the plan is adequate, and what worries us is the accumulation rate. Generally speaking, an excessively high accumulation rate will give rise to a high speed, since a high speed and a high accumulation are two aspects of the same economic process. However, this is but one of the possible developments of the economy. In our practical economic life, whether a high accumulation can lead to a high speed depends also on the formation of the accumulation, and mainly depends on the distribution between the non-productive accumulation and the productive accumulation. In the case of a high accumulation, under the premise that the productive accumulation can ensure an adequate rate of economic growth, a relatively high non-productive accumulation used to improve the people's livelihood and its rise in the formation of the entire accumulation will not give rise to a high speed of economic growth, but will facilitate the correct handling of the relationship between accumulation and consumption. However, if the proportion of the productive investment in the accumulation is excessively great and the proportion of the non-productive investment is too small, it will very possibly lead to a high speed in economic growth and may harm the adjustment of the relationship between accumulation and consumption. In the case of a high accumulation, if the

productive accumulation cannot ensure a sustained growth of the economy, and the non-productive accumulation is mainly used in building houses and restaurants which have nothing to do with the improvement of the people's livelihood or the development of tourism, it will aggravate the contradiction between the speed economic growth speed, the accumulation, and the improvement of the people's living standards. The key in resolving this contradiction is to do a good job in distributing and utilizing the newly increased national income, which will determine the sustained capability of developing the economy, the possible step in readjusting the industrial structure, and the extent of improvement of the people's living standard.

The Seventh 5-Year Plan attaches great importance to the economic results, and this is a prominent feature compared with the past 5-year plan. The reasons for enhancing the economic results have been dealt with quite comprehensively, and the key in this plan is the adoption of effective and vigorous measures to realize this objective. The enhancement of the economic results involves many aspects, such as reforming the economic system, adjusting the industrial structure, improving the operations and management, promoting technological progress, and so on. Naturally all these are very important, but their marked effects in enhancing the economic results can be witnessed only over a period of time, even a considerable length of time. In the Seventh 5-Year Plan, in order to support the progress of the reform, the development of production and construction, and the improvement of the people's living standards, the key points in enhancing the economic results at present and in the few years to come will be as follows:

--Reduce and even stop various forms of waste in production and construction. A considerable amount of capital and materials can be saved if only 1 percent of the material consumption in our production is reduced. Great potential exists in this respect, especially in the large and medium-sized enterprises. Some success in this field will be beneficial to alleviating the tension in terms of the supply of capital and materials.

--Enhance the economic results in utilizing foreign capital and importing technology. This contradiction will become even more prominent with the further opening up to the outside world. We cannot separate utilizing foreign capital from enhancing economic results, and we cannot separate importing technology from assimilation and transformation. Tension in foreign exchange will exist for a long time in China. We must increase exports and earn foreign exchange in every way possible, and seek economic results in utilizing foreign exchange, and we should try hard to gradually achieve the aim of mainly relying on our own strength to expand economic and technological exchanges with other countries.

--Attach great importance to investment results. Great efforts must be exerted to enhance the investment results of our capital construction. It is necessary to control the scale of construction, adjust the structure of investment, and use our capital and funds in those items with good economic results which can meet the urgent needs of our country. At the same time, new items should be strictly controlled, and items under construction should be carefully assessed. Both the newly-approved items and the retained items under construction should

proceed in accordance with the proper schedule and order and their timely completion and operation should be ensured. Delay in construction schedules is an important reason for poor investment results. In particular, the low economic results caused by the delay in large and medium-sized projects cannot be remedied by any microeconomic results. It may be said that enhancing the investment results is the key to improving the economic results as a whole.

Speed, ratio, and results are closely associated with the industrial structure. If the industrial structure is irrational, fluctuations will occur in the speed of economic growth, the ratio relationship will lose its firm foundation, and the economic results will not be able to rise fundamentally. In this sense, it can be said that without a rational industrial structure, speed, ratio, and results will be difficult to coordinate, and the arrangement and implementation of the 5-year plan will meet with difficulties.

The rational adjustment of the industrial structure involves the interests of various sectors, and is not an easy matter to handle. It needs considerable time to accomplish the work. On the one hand, adjusting the industrial structure should be based on the consumption structure, while the latter changes quite rapidly. Even if the demand can be effectively contained, it will be hard for the steps of the adjustment of the industrial structure to follow. On the other hand, the adjustment of the industrial structure is restrained by the investment structure. We may even say that the degree of adjustment of the investment structure determines the speed of the possible adjustment of the industrial structure. Furthermore, there are hindrances as well as difficulties in adjusting the investment structure, which is hard to accomplish within a short time.

In adjusting the structure of industries, there are many aspects of problems which need to be studied. For example:

1. The formulation of the development plans for different regions and trades. This is the strategic basis for adjusting the industrial structure. The Seventh 5-Year Plan has made a rough arrangement for the deployment of the regions, which is a great advance compared with past 5-year plans. On this basis it is necessary to draw up plans for different trades, which may be regarded as the work of the early stages of the Seventh 5-Year Plan, and may also be regarded as a component part in the adjustment of the industrial structure. Blindness can hardly be avoided in adjusting the industrial structure without the plans for different regions and trades. Plans, forecasts, and the planning work, when well combined, will gradually perfect the 5-year plan, and will be beneficial to the overall long-term arrangements for the adjustment of the industrial structure. In addition, the planning of the construction items will have something to follow.

2. The selection of the beginning industries and the leading industries. In our western regions, the economy is not well developed, and the beginning industries should be selected properly in accordance with local conditions. These should be those industries which can achieve quick results with small investment, can expand the production and circulation of commodities, and

can give play to the strong points of the regions. In addition, these industries should be able to enhance the economic results, the ecological results, and the social results. With regard to industries as a whole and especially the adjustment of the industrial structure, it is both necessary and important to select the leading industries well. If the leading industries are not clearly designated, various trades and industries will vie with each other in developing themselves, leading to the ever-increasing demand of energy resources and raw materials. In this situation, investments, no matter how great they are, will not be able to allay the contradictions between demand and supply. According to the concrete conditions of our country, the selection of the leading industries should give prominence to those industries which can lead the whole industrial structure to sophistication and modernization and can increase exports to earn more foreign exchange. At present, it is difficult for any industry to achieve both of these objectives. However, arrangements have to be made on the basis of long-term considerations. Preferential policies and measures should be adopted in respect to capital and funds (including foreign exchange), materials, and prices, so that the leading industries can gradually be established. On this basis, it is necessary to further make clear the stages and levels in adjusting the industrial structure, and carry out the adjustment gradually in accordance with the possibilities of the financial and material resources of the state as well as the needs in our economic development.

The above rough reflections on the Seventh 5-Year Plan can only pose some questions for discussion. Their solution awaits our future exploration and study, both theoretically and practically.

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NATIONAL POLICY AND ISSUES

JINGJI YANJIU ON ECONOMISTS' SOCIAL RESPONSIBILITY

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[Article by Tang Zongkun [0781 1350 3540]: "A Sense of Social Responsibility of Economic Theory Workers"]

[Text] In the year or so since the passing of the "Decision on the Reform of the Economic Structure" by the 3d Plenum of the 11th CPC Central Committee, our nation's research into socialist economic theory has seen a new situation of unprecedentedly vigorous development. This short article cannot and need not summarize the rich results achieved in socialist economic theory research over the last year or so. It is only necessary to note a few important points and it will be possible to see some of the progress made in economic theory.

First, it has accorded with the demand to develop a planned commodity economy on a base of public ownership, and formed a three-part reform concept of increasing enterprises' vigor as commodity producers and operators, of establishing and perfecting the market system and of changing from mainly using direct macroeconomic controls to mainly using indirect macroeconomic controls. This has made the planned commodity economy system concrete. It has stepped over the restrictions of selecting goal models which use administrative centralized power or dispersed power as their axis and in the selection of goal models, there has been wide-scale development which has a scientific basis and is rich in long-range prospects.

Second, in the coordination of microeconomic regulation and the microeconomic base, and in the relationship between the economic movement mechanisms and ownership systems, it has directly raised and explored questions on the reform of the ownership structure. At present, research into the ownership structure not only includes research into the ownership structure, that is the social ownership structure, by looking at the external aspects of the various ownership systems, but also includes research into ownership systems by going deeply into the internal aspects of the various socialist ownership forms. This has especially been so with respect to research into the international structure of state ownership. At the same time, there has been concrete research into the various ownership systems and structures with

respect to the degree to which they are suited to the situation of the productive forces, from the angle of the innate mechanisms of the various ownership systems which exist in society and the relationship between them.

Third, research into the questions of pricing has already broken through the restrictions imposed by confining questions of price formation within the fixed limits of administratively stipulated planned pricing categories. It has entered a deeper level where research is conducted into price reform questions by proceeding from the basic function of pricing and the various price formation mechanisms. It has also revealed that the source of chaos in pricing lies in the ossified nature of the pricing system and thereby clearly sets down that the direction of pricing reform lies in coordinating the reforms of the pricing systems and the pricing structures and in putting the stress on the structural reform of prices. This pricing reform direction provides, for the reform of the materials supply system, a route by which the administrative allocation of the means of production can be gradually reformed into commodity circulation through the "double-track system."

Fourth, in the question of the relationship between reform and construction, the resolution of the problems of dramatic growth in demand and excessive growth in the economy which appeared in the fourth quarter of 1984, was taken as the juncture. On this base, at the same time as essentially affirming the good economic situation, timely research was conducted and the factors of instability in the national economy, which were threatening the reform of the economic structure and long-term economic development, were uncovered. Thereby the issue of creating fine economic and social conditions for the reform of the economic structure was systematically put forward and explained on the theoretical level. This provided a theoretical base on which reform could be maintained in prime position, so that reform and construction can accord with each other and promote each other in the fixing of strategic guiding principles.

Fifth, developmental research has been carried out from different trains of thought, into the characteristics of our nation's present stages of economic development and various definitions have been put forward. For example, they include the change-over stage of combining structural models and economic development models, the transitional stage of change from a plural economy to a modern economy, and the stage of new maturation where the national economic structural reforms are the main content. Although these definitions still need further specific exposition and mutual comparison, one thing can be affirmed. That is, this research has, to different degrees, touched on the complex contradictions in the deep levels of society and this has helped form the necessary theoretical base on which, from quite a wide historical span, we can ponder and devise economic structural reforms and on which we can achieve economic and social development.

Sixth, research into the socialist production relationships has been deepened. Research has changed from the former, abstract static description of economic categories and economic laws to a deeper examination of the specific, dynamic

situation of economic mechanisms. By proceeding from the actual economic process, research has been conducted into economic mechanisms which has created the necessary scientific prerequisites for thoroughly uncovering the essence of socialist production relationships, and for earnestly exploring the socialist economic categories and economic laws. This sort of research can also more thoroughly uncover the problems of the old ossified system, and will thus more automatically create the necessary structural conditions for the formation of the new mechanisms of a highly-effective economic movement. It will also provide a scientific base for adopting correct countermeasures which accord with the economic mechanism changeover during the process of changing the old economic structure for a new economic structure.

Seventh, our nation's traditional socialist political economic system discarded the reality of a market mechanism for a theoretical reproduction of a socialist economic system which had as its base an expanded natural economy. Thus, there was no way for it to accommodate a socialist economic system based on a planned commodity economy. There was also no way to resolve the innumerable new problems which arose in the process of reform of the economic structure. Also, it had the methodological drawback of researching problems in an isolated and static way. Thus, much less was it capable of facing the task of basically transforming, in terms of the theoretical system, socialist political economics, a task which has been put forward very naturally by our economic theory workers during the great strategic changes of our nation's economy. Some economists have already started or are preparing to start exploring this from different angles. Realizing this task will of course require unrelenting efforts over a long period. However, the putting forward of this task is a great awakening by our nation's economic circles.

Through looking at the situation in our nation's economic theory research in the year-plus since the passing of the "decision," we can say, without any exaggeration, that in this period the breadth of socialist economic theory research and the depth of the research levels have both exceeded those in any period of our nation's past. The present station of our nation's socialist economic theory research is the best since the founding of the PRC. The vast numbers of economic theory workers have, under the guidance of the "Decision of the CPC Central Committee on the Reform of the Economic Structure," put great efforts into promoting the reform of the economic structure, done investigative research, been brave in exploration, developed progressively and demonstrated their intense sense of social responsibility in the cause of socialist modernization. However, among the economic theory workers, there are a few comrades who feel that the series of important topics put forward for the reform of the economic structure are not worth looking at. They feel that at present our nation's economic research areas are experiencing a "phenomenon of disorder." They make secret complaints to superiors and make false reports about the situation. They thus advocate strict controls on the tendencies of liberalization in the economic theory circles. These astonishing attitudes of indifference or even arrogance toward theoretical exploration in the reform of the economic structure form a striking

contrast with the intense sense of social responsibility of the broad masses of economic theory workers. Any economic theory workers who has an intense sense of social responsibility must pay attention to where the controls advocated by these comrades will lead us.

Past experience, if not forgotten, is a guide for the future. There is no need to speak of how in the past "leftist" guiding ideology used the pretext of criticizing "bourgeois liberalization" and dragged us into 10 years of chaos during which our nation's economic theories were all razed to ruins and the economy was in a desolate situation on the brink of collapse. This remains fresh in our memories. Even if we look at the situation since the 3d Plenum of the 11th CPC Central Committee, which is vastly different from what had gone before, we only need to look back at the experiences in our nation's economic theory research between the 3d Plenum of the 11th CPC Central Committee and the 3d Plenum of the 12th CPC Central Committee, and that will give us great food for thought and make us more vigilant.

In the first year following the 3d Plenum of the 11th CPC Central Committee, that is in 1979, our nation's economic circles, by proceeding from the exploration of planning and the market in a socialist economy, put forward a series of new questions and new ideas. In the past, these could not be put forward as there had been various types of restricted theoretical zones artificially established. For example, they looked at the question of the market mechanism in a socialist planned economy, put forward the idea that a socialist economy is a planned commodity economy, the idea of the law of value regulating, within the whole society, socialist production and circulation; the idea that national economic planning must take the law of value as its base; the idea that mandatory planning should be changed to guidance planning; the idea that price should not only reflect value but also be a reflection of the supply-demand situation; the idea that socialist enterprises must realize the separation of government and enterprise functions and must be reformed into independent commodity producers; the idea that a socialist commodity economy still has a mechanism of competition, and so on. All these ideas which in the past in our nation had been seen as "bourgeois liberationization" and which are now recognized as guiding ideological viewpoints in the reform of the socialist economic structure, were all first put forward in 1979. At that time, when they were put forward, they generated great debate, with many people expressing doubts or hesitation about the ideas. At the same time, in our nation's economic circles, some people began to look beyond reform of the economic system to the relationship between reform of economic movement mechanisms and ownership reforms, and put forward the questions of the development of socialist ownership forms. Following this, in 1980, they also put forward questions of ownership structures, which elicited intense debate in economic circles. These were all important breakthroughs with respect to the unrealistic traditional concepts which had long ruled our economic theory. They also played an undeniably promotional role in the development of our nation's socialist economic theory and practice.

The appearance of this thriving situation in our nation's economic theory research, which in the past could not even have been imagined, is not something which has happened accidentally. The brilliant decision on developing

economic structural reforms taken by the 3d Plenum of the 11th CPC Central Committee greatly prompted the vast numbers of economic theory workers to have an intense sense of social responsibility with respect to the socialist cause. The Marxist ideological line established by the whole plenum of liberating ideas and seeking truth from facts also greatly encouraged them to persist in proceeding from reality and in using a Marxist stand, views and methods to research the new situations and new problems in the new period. It was with the calls and encouragement of the Third Plenary Session that the enthusiasm of the economic theory contingent for socialist, which had been stifled by the long period of "leftist" guiding ideology swiftly burst forth, manifesting a Marxist creative power rich in vigor.

However, everybody knows that although there was the guidance of the line and principles of the 3d Plenum of the 11th CPC Central Committee, our economic theory workers had great difficulty making progress as they had to overcome the various man-made obstacles of those who opposed the spirit of the Third Plenum. The impetus of the thriving development of socialist economic theory research which commenced in 1979 drew more and more economic theory workers into researching, in the see-truth-from-facts way, the theoretical and practical problems of the economic structural reforms. However, regular academic discussion in the economic theory fields was often subject to baffling interference. For example, it was said that socialist economics could only talk about commodity production not about a commodity economy, that the basic indication of a socialist planned economy was mandatory planning and could not be guidance planning and that the planning system could only be improved, it could not be reformed. It was also said that reforming the planning system was negating the basic principles of the socialist planned economy, and that the law of value could only play an auxiliary role to economic planning and could not be the basis of planning. In addition, it was claimed that one could only speak of two major divisions and could not speak of the three divisions of industry, and so on. If these ideas were just an individual's views contributed to a discussion, it would not be strange, as everyone is permitted to have their own views on academic questions. Also, regardless of whether a viewpoint is correct or not, as long as we persist in allowing the comrades who hold these views to participate in the academic discussions on an equal footing, it will play a beneficial role in the deepening of overall theoretical research into the socialist economy. However, some people do not believe that it is necessary to convince people by reasoning, and take the role of an authority and want to act as judges on theoretical viewpoints. This basically violates the laws of the development of economic science. Facts have shown us that this attitude and these actions interfere in the implementation of the principles of liberating our minds and seeking truth from facts established by the 3d Plenum of the 11th CPC Central Committee. They are a pressure obstructing creative exploration among our economic theory ranks. This has resulted in various setbacks to the development of the good economic theory research environment which appeared after 1979 in combining basic Marxist theory and our own nation's concrete reality. It led, at various times between the two third plenary session, to our nation's socialist economic theory research into various important questions becoming

temporarily stalled, and on some questions even seeing retrogression. Thus, the research became divorced from the reality of the economic structural reforms being carried out in our nation.

It is precisely because our vast numbers of economic theory workers have gone through this experience but have persisted in proceeding from reality and being brave in carrying out theoretical exploration that they have been able to realize profoundly the immeasurable theoretical strength and practical significance of the "Decision of the Reform of the Economic Structure" taken by the 3d Plenum of the 11th CPC Central Committee. The "Decision" clearly affirms that the socialist economy is a planned commodity economy based on public ownership and thereby, in the area of socialist economic theory, systematically breaks through traditional ideas which have already been shown by practice to not accord with reality. This model of combining basic Marxist theory with contemporary China's reality is a scientific summation of the experiences of socialist construction in both China and abroad, and is especially a summation of the new experiences of the reform of our nation's economic structure. It is also a summary and development on a higher plane of the scientific results achieved in our nation's economic theory research since the 3d Plenum of the 11th CPC Central Committee. It further liberates ideas with respect to economic studies and at the same time clearly sets down the direction of economic theory research as being directed towards actual practice. The "Decision" not only provides a series of new topics in economic theory research and gives economic theory workers a heavier social responsibility, but also takes correct decisions with respect to guiding the healthy development of economic theory research and clearly sets down that "different stands and different theoretical ideas on questions of reform can be developed and discussed." This further creates the necessary political environment for exploration in economic science. It is precisely this background which has promoted the formation of the very good situation in our nation's economic theory research over the last few years.

The present situation of vigorous development in our nation's economic theory research has been hard-earned and the great number of economic research workers greatly value it. Of course, we cannot tolerate any attempts to reverse this situation. What are the above-mentioned individual economic theory workers referring to when they criticize the so-called "tendencies of liberalization" and "phenomena of disorder" existing in current economic theory research? The charges they have cooked up are nothing but claims that some people are advocating that market regulation must play an important role in economic systems movements, that some people want to establish funds markets and labor markets, that some people advocate allowing people to choose their own employment and advocate unemployment insurance, and that some people want to reform the social service and social insurance systems. Their claims also include that some people advocate increasing the pace of pricing reforms, that some people advocate implementing shareholder systems in state-owned enterprises and so on. These questions and ideas were very naturally produced through research into the internal patterns of socialist commodity economy movement and in exploring the various paths on which, in practice, the socialist commodity economy can be developed. What crime is there in discussing these questions and putting forward these ideas? Allegedly, it is the

heinous crime of not adhering to socialism and not adhering to the planned economy. It may then be asked: Do we still want to discuss the question of the reform of the ownership structure, the question of forming and improving the market system, the question of pricing reforms and even the question of the overall development of the planned commodity economy and so on? If we are to discuss them, are we first to set down the scope of discussion, and set down which ideas can be discussed and which ideas cannot be discussed? Which genius should make these a priori decisions? Whether it is forbidding discussions or stipulating, in an a priori way, the scope of discussions, the result is the same. That is, it suffocates theoretical and practical exploration of the economic structural reforms. It is not difficult to understand why these comrades who loudly appeal for "control" of economic theory research actually believe that people who advocate the putting forward of new concepts when researching new phenomena and new questions are guilty of belittling existing political economy teaching materials, which is the same as being guilty of the great crime of negating Marxist political economics. It seems as if these geniuses in Marxism know nothing about the combining of theory and practice, which is the quintessence of Marxism. I suppose that if Marx had the fortune to meet these brilliant geniuses, he would be utterly helpless and could only announce, "I am not a Marxist."

What needs to be pointed out is that the point in dispute is certainly not whether one can or should make one's own judgment on those economic theory discussions now going on. Undoubtedly, all comrades can and should make independent judgment on current economic theory discussions and on other people's ideas, and support those ideas which they think are correct. However, the holders of different ideas should openly stand up and participate in discussions and should openly express their views at academic forums and in publications. Also, through seek-truth-from-facts analysis and through fully convincing proof, they should criticize those ideas with which they do not agree. Of course, they should also be prepared to listen to replies from those who have been criticized. That this will require great efforts, genuine talent and scientific investigative research goes without saying. However, only in this way will one be adopting a serious attitude in one's responsibility to the socialist cause. On the other hand, quoting extracts or fragments from other people out of context and inventing charges, making false reports about the situation and trying to use various types of administrative powers to suppress discussion, are not things which economic science workers who are serious about their real responsibilities to the socialist cause will do. Nor will they put up with such actions. It is inevitable that they strongly demand the redressing of these types of unhealthy trends in economic theory work.

We are in the process of carrying out in China, with its population of 1 billion, economic structural reforms and socialist modernization. These are vast economic and social changes within the socialist category, which will be unprecedented in breadth and depth and which will require a protracted period to carry out. There is no successful model which can be used as reference and there is no ready-made conclusion which can be cited. Reform and construction can only progress through exploration, experience can only be accumulated through practice and theory can only be created and developed on

the basis of practice. The practice of reform and construction requires theoretical guidance and the exploration of theory needs practice based on reform and construction. If China does not reform, then there will be no way out, and if we do not carry out theoretical and practical exploration into reform, then there will be no way to carry out the reforms. Thus, attacking scientific exploration in economic theory is the same as attacking reform and construction. Theoretical exploration can result in successes but failures are also difficult to avoid. Grasping some mistakes in theoretical exploration and raising them endlessly to higher planes of principle, or criticizing beneficial exploration, which is not even wrong, as "bourgeois liberalization" can only obstruct the road of exploration in economic science. What is now required is braver exploration. This is the demand practice has placed on economic theory workers.

As has been said above, the present situation in our nation's economic theory research is the best since the founding of the PRC, and the vast number of economic theory workers feel very glad about this. However, this is only speaking in terms of a vertical comparison between periods. If we make a horizontal comparison, that is a comparison of the present situation in economic theory work with the demands of reform and construction practice, then we see that economic theory work is still clearly quite weak. This causes all those economic theory workers who have a strong sense of mission and sense of urgency with respect to putting all efforts into promoting the reform of the economic structure and socialist modernization to feel greatly ill at ease.

In the "Report on the Seventh 5-Year Plan" given at the Fourth Session of the Sixth NPC by Premier Zhao Ziyang, it is pointed out: "At present, our economic theory research work lags behind the practice of reform and construction. This is not beneficial to the making of new summaries of our rich practice. We must continue adhering to the principle of linking theory with practice and encourage, on both the theoretical and practical levels, brave exploration and a new spirit of development." Comrades Zhao Ziyang's assessment of the current situation in economic theory work is extremely pertinent. The principle he puts forward of encouraging exploration and the blazing of new trails in economic theory causes us to feel greatly touched.

Brave exploration and the blazing of new trails in economic theory, of course, will depend on the improvement of the structure of the economic theory ranks themselves and the raising of their quality, as well as on the bravery of individual economic theory workers. At the same time, combining this with economic structural reforms and socialist modernization will be of benefit in obtaining a fine environment for academic discussions. The focal point of the whole party's work has, since the 3d Plenum of the 11th CPC Central Committee, shifted to socialist modernization. The guidance for theoretical work must also truly realize, in a way which accords with this, a change in the strategic focal point. That is, it must change from "taking class struggle as the key link" to the new track of encouraging theoretical exploration and innovation, as put forward by Comrade Zhao Ziyang. In the new historical period of reform and construction, the main responsibility in guiding

theoretical work should be to be good at keenly discovering new growth points in theoretical research areas, to put all efforts into supporting these, in fostering and guiding them, so that they grow healthily and sturdily and so that they can accord with the needs of reform and construction. What should not be done is what was done during the period of "taking class struggle as the key link" when targets for criticism were sought among the theoretical ranks.

The party Central Committee long ago set down correct guiding principles for theoretical work during the new period. The 3d Plenum of the 11th CPC Central Committee proposed liberating our minds and seeking truth from facts and the 3d Plenum of the 12th CPC Central Committee put forward that "different stands and different theoretical viewpoints on the reform question can be developed and discussed." These ideas are more correct and are more concrete stipulations and a further development, during the new period, of the combination of theory and practice, and the principle of letting a hundred flowers bloom and a hundred schools of thought contend. Since 1979, the developments in our nation's economic theory research have all been achieved under the guidance of this correct principle. Only if this principle is adhered to will economic theory research be able to achieve greater development.

At present, we must implement the policy of "encouraging a spirit of brave exploration and innovation in both theory and practice" and change the situation where economic theory research work lags behind practice. The key of this lies in implementing to the letter the guiding principles in theoretical work stipulated by the two third plenums as mentioned above, earnestly developing in an undistorted way, a situation of a hundred schools of thought contending, and creating the necessary conditions so that the great numbers of economic theory workers can really go deep into the practice of reform and construction to conduct investigative research. They should not dodge those objectively existing contradictions, but should be brave in using a Marxist stand, view and methods to creatively research the complicated situation, questions and experiences which are constantly emerging from reform and construction practice, and put forward new summaries in a seek-truth-facts way. Not only should we not censure economic theory workers who persist in proceeding from reality to uncover those contradictions which exist in economic life, but we should encourage them. This is because if we do not thoroughly uncover these contradictions, we will not be able to formulate correct economic policies and reform plans. With respect to those economic theory workers who, by combining theory and practice, put forward new ideas which are different from traditional concepts, we should treat them carefully and seriously, and avoid making rash judgments. We cannot class those ideas which do not agree with the new understandings as "ossified" but much less should we put the cap of "bourgeois liberalization" on those new ideas which are different from traditional ideas. Just because an understanding is new, it does not mean that it is completely correct. It might be right or it might be wrong, or it may even contain both correct and incorrect components. When a new understanding is put forward, people will have different ideas on it. This is natural and thus a completely normal phenomenon. The responsibility of those who guide and organize economic theory work is

to adopt appropriate forms so that those comrades who hold different ideas will have the opportunity to express them, to put forward queries with respect to those ideas they do not agree with, and to put forward full facts, materials and proof to explain their ideas, so as to develop debates through which people can be convinced by reasoning. Only if there are different views and their arguments are fully developed will it be possible to compare and differentiate the different ideas, so that the correct ideas mature and are perfected through debate. It will also result in the contradictions and defects of the mistaken and biased views being fully revealed through the debates. Through discussion, there will be no need and no requirement to insist on uniformity. This is because discussion is a phenomena which cannot be avoided in theory research and, in general, it will be of benefit in promoting the further deepening of theory research. More importantly, the correctness or otherwise of theoretical ideas will, in the end, be tested through practice. With respect to various valuable economic theory ideas and appropriate policy stands, we can selectively organize experiments in practice, then gradually sum up experiences and appraise theories. Many economic theory ideas will probably still need the testing of a long period of practice. Thus, in economic theory questions, we should advocate that plentiful exploration and debate be conducted following the development of practice. Only with a free academic environment like this will it be possible to promote the smooth development of Marxist socialist economic theory. Only thus will it be possible to better promote the improvement of our nation's economic theory contingent's intellectual composition, raise their ideological and theoretical qualities and more quickly train a large batch of high-level, skilled economic theory personnel which have both a deep theoretical base and are very familiar with actual economic processes.

Maintaining the scientific spirit and academic freedom of proceeding in everything from reality will not weaken the position of Marxism in economic theory areas, but will in fact consolidate and develop it. The vast number of economic theory workers who are conscious of their own social responsibilities need academic freedom. This is because in an environment of academic freedom, it will be possible to eliminate artificially created apprehensions and prejudices, for the economic theory workers to have a high degree of sense of responsibility and sense of mission with respect to socialist modernization, and for them to be brave in exploring the new problems put forward in practice. In this way, they will truly be able to proceed from reality in everything and tightly link up theory and practice. Tightly linking up theory and practice is the road one must follow in developing Marxist economic theory. Our nation's economic theory contingent is, in general, a contingent which the people can trust and which puts great efforts into struggling for the socialist cause. There is no basis for suspecting that its members are using academic freedom to shake Marxism. This suspicion is, in itself, a manifestation of a nervous weakness showing a lack of trust in Marxism. Of course, there is no need for reticence. If there is academic freedom, not every idea which is put forward can be Marxist and it is impossible to avoid a great mix of ideas in the theoretical field. However, first, whether a theoretical idea is correct and whether it is Marxist can only be tested by the sole standard of practice. Second, with respect to mistaken theoretical ideas, we must adopt an attitude of scientific

analysis and distinguish the nature of different mistakes. For example, various biases might result from a complete lack of understanding or an incomplete understanding of the actual economic process. Other mistaken ideas may be due to misunderstandings of Marxist economics. Still other phenomenon such as rigidity may be produced in a way which is difficult to avoid when there is a situation of opening up after being closed off and there is academic freedom, by people not being good at critically assessing the economic theories of various foreign schools. This includes both blind copying and blind rejection. Also, it may occur that some people have absolutely no respect for Marxism, but in our nation's economic theory circles, such people are few. Further, in the criticism of mistakes, we must adopt a fully reasoned attitude based on objective reality. In criticism and counter-criticism which are on an equal footing we will be able to appropriately uncover the mistakes and the nature of the mistakes and reveal the reasons for the mistakes in theory. The counter-criticism by those who have been criticized may also correct the critics' arguments or various one-sided or inappropriate parts of an argument. As to why we must adopt a scientific, extremely cautious and fully reasonable attitude with respect to mistaken theoretical ideas, it is not only because this is the way to correctly overcome mistaken theoretical ideas, but also because this will be beneficial to safeguarding those ideas which are first criticized as mistaken and subsequently, through the tests of practice, are proved to be correct. Marx and Engels who lived in capitalist societies never and could not use any power to force other people to accept their theories. However, these two people depended on the scientific nature and truthfulness of the Marxism they had established to defeat the various attacks by the theories of the bourgeoisie who ruled capitalist society and the theories of the petit bourgeoisie, and convinced hundreds of millions of people around the world. If we persist in a thoroughly dialectical materialist standpoint, there is no reason to doubt that, in our socialist country with a Marxist party in power, we will be able to develop Marxist economic theory and expand the Marxist economic theory front by combining theory and practice in an environment of academic freedom.

It should be pointed out in passing that seeing freedom as the patent of capitalism is not a Marxist viewpoint. Only the bourgeoisie parades their capitalist countries as "free countries" to distinguish them from socialist countries. If we say that freedom in the end is "bourgeois liberalization" then should we not perhaps consider, on this extremely serious question of principle, whether or not there is a clear ideological demarcation line between this and the bourgeoisie. Marx and Engels predicted in the "Manifesto of the Communist Party": "In place of the old bourgeois society with its classes and class antagonisms, we shall have an association, in which the free development of each is the condition for the free development of all." [Footnote 1: Marx and Engels "Manifesto of the Communist Party" in "Selected Works of Marx and Engels" Vol 1, p 273] Reviewing these words of Marx and Engels which in the most concise language clearly expresses their basic ideas on future society, will be of great benefit to all those comrades who truly uphold Marxism and uphold scientific socialism.

The economic circles in a modern China which is at a stage of great strategic, economic and social change are facing a wide world where they will be able to develop their talents. The party's policy of "encouraging the new spirit of brave exploration and innovation in theory and in practice" has not reduced and has actually greatly increased the social responsibility of economic circles. Premier Zhao Ziyang in his "Report on the Seventh 5-Year Plan" pointed out: "Philosophical and social science research, and especially economic theory research, must abide by the principle of linking theory with practice, actively use basic Marxist theories to explore and resolve the important questions put forward in reform and construction and make great efforts in enriching and developing Marxism in practice." This is the unshirkable glorious and arduous historical mission of the economic circles in contemporary China. As they face many new situations and new questions which they are not familiar with in the strategic social and economic changes, more and more economic theory workers have realized that in order to change the situation whereby economic theory research work lags behind practice, not only must the overall economic theory ranks be expanded and must the composition be improved, but individuals' intellectual structure also urgently needs renewal and improvement. There needs to be a new study of Marxism, a new study of society and a new study of history. Also, using an attitude of scientific criticism we need to study the various historical and contemporary economic theories and economic trends of thought which have had great influence in the world. At the same time, there is a need to further understand the development trends of modern science and technology as modern technology and modern tools which can be applied in economic research. Over the last few years, batch by batch, young people who wish to promote reform and construction and who are willing to use their own judgment in economic research, have entered the economic theory ranks and have brought a new vigor to economic circles. Of these comrades, many are skilled in study, are diligent in investigation, are brave in exploration and dare to blaze new trails. They display many ideas and great talent. This is a very pleasing phenomenon. Some comrades display an aristocratic and highly critical attitude towards them and are quick to place the cap of "bourgeois liberalization" on them. This is totally intolerable. First, we should support and encourage the spirit of exploration and blazing new trails, and not rebuke them. Second, as they are young people, it is inevitable that in theoretical research they will put forward some immature or even wrong ideas. In this they need to be enthusiastically helped and guided. No matter what, we absolutely cannot, intentionally or otherwise, dampen their drive for investigative research. China needs more Sun Yefangs and needs groups of economists who have Sun Yefang's theoretical courage and, following the progress of the times, who will greatly surpass Sun Yefang. This is where the hopes for Chinese Marxist economic science to see vigorous development lie. It is also where the hopes for success in China's economic structural reforms and socialist modernization lie.

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NATIONAL POLICY AND ISSUES

JOURNAL DISCUSSES CAPITAL CONSTRUCTION INVESTMENT

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[Article by Chang Yunkun [1603 0061 2492] and Yang Yonglin [2799 3057 2651] of the Shaanxi Teachers' College, written in December 1985: "Effectiveness and Limitations of Using Financial Means to Adjust the Total Investment in China's Capital Construction"]

[Text] Under our country's concrete conditions, adopting a means to control the volume of credit and loans for investment and the volume of money supply cannot effectively control the overly rapid increase in the capital construction funds. Only through the use of coordinated means and doing a comprehensive administrative job can success be attained.

The economic reform of a socialist state is a renewed selection of its economic pattern. In the course of the changeover, due to the lack of perfection of the new form, certain macro-economic management cannot be avoided and the phenomenon of an overly rapid increase in construction funds and consumption funds may appear. The current stage in our country is such and needs to be earnestly examined and a solution sought. At present, those upholding the viewpoint that financial means should be used to carry out macroeconomic adjustment believe that investment in the current stage of our country lacks interest elasticity, possessing only low-interest elasticity, that the role of adjustment of the interest rate is curbed in the macroeconomic regulation and adjustment, and that we should resort to direct control of the volume of credits and loans for investment and its growth rate as the principal means of regulating and adjusting the investment volume. We believe that under the concrete conditions of our country, extrabudgetary investments not derived from credits and/or loans occupy a relatively large proportion, and that purely controlling the volume of credits and loans for investments and its growth rate makes it difficult to attain the objective of effectively controlling the gross volume of investments. Since the interest rate on the portion of extrabudgetary investments has an obvious regulatory role, we should put the direct control of the gross volume of credits and loans and adjusting the interest rate in an equally important position, supplemented at the same time by financial and administrative means. Only by so doing can we effectively regulate the gross volume of investments.

The sources of our country's capital construction investments are threefold: 1) Investments within the state budget (in 1984, financial appropriations were changed to loans); 2) extrabudgetary investments with the nature of a loan; and 3) extrabudgetary investments with a non-loan nature. Following the intensive development of the reform of the economic structure, a clear change has taken place between the ratios respectively occupied by investments within the budget and extrabudgetary investments in the total volume of investments. The ratio of investments within the budget has been reduced yearly, while that of extrabudgetary investments has increased each year. Viewed from the factor of ownership by the whole people alone, in 1980, investments within the state budget occupied a ratio of 62.5 percent out of the total capital construction investment; in 1981 this was reduced to 56.8 percent; in 1982, 49.8 percent; in 1983, 58.2 percent; and in 1984, about 50 percent. During the same period, the ratio of extrabudgetary investments was between 40 to 50 percent. In the extrabudgetary investments, those not derived from loans have occupied a relatively larger portion. Seen from the fixed asset investments under the system of ownership by the whole people, in 1982, investments from self-raised funds and funds not derived from loans accounted for 45.3 percent of the gross amount of investments, while in 1983 the figure was 43.4 percent. Seen from structure of the fixed asset investments of the whole society, in 1983, investments made by units under the system of collective ownership and individuals' investments in building houses amounted to a total of 41.71 billion yuan, equivalent to 70.2 percent of the volume of capital construction investments under the system of ownership by the whole people. This portion of investments was outside the control of the budget (figures are from the 1984 Statistical Yearbook of China). Control of the total volume of credits and loans for investments can only regulate and adjust investments within the budget and extrabudgetary investments derived from loans. It can hardly perform the role of regulation of extrabudgetary investments not derived from loans. Hence, control of the total volume of credits and loans can hardly effectively regulate the whole volume of capital construction investments.

Whether or not adjustment of the interest rate can play a regulatory role over extrabudgetary investments is determined by the extent of influence exercised by the elasticity of the interest on extrabudgetary investments financed by loans as well as the interest rate on extrabudgetary investments not so financed. Under general conditions, when investments lack interest elasticity, adjustment of the interest rate cannot play any regulatory role over investments; when the interest elasticity of investments is relatively high, the gross volume of investments strongly responds to the interest rate. In general, there are two conditions under which investments lack interest elasticity: One of them is the condition of "moving pitfalls" frequently found in a capitalist economic crisis. Under this condition, the interest rate has fallen to the lowest point, but still cannot stir up any decision on investment. The other condition is found in a planned economy structure which is completely and highly centralized, wherein the gross volume of social investments is determined by central planning and the enterprises have no decisionmaking power regarding investments; hence, the interest rate has no effect on investments.

In an integrated market economy, the interest elasticity of investments is in general relatively high, because the demand and supply of funds is not determined by factors outside the market but is regulated by the market interest rate. At present, our country's economy is a planned commodity economy based on the public ownership system, in which extrabudgetary investments do not encounter any "moving pitfalls" due to an economic crisis and there is no centralized and planned policy-making by central authorities. Rather, such investments are determined by the localities and enterprises themselves according to market demand. This portion of investments and investments within the budget differ from each other in the extent of their fluctuations. Investments within the budget have two special features: First, the volume of investments is determined by the state plan and must be carried out; the investments have no interest elasticity. Second, changes in the plan must be submitted to the higher levels for examination and approval and the process is time consuming. These two special features determine that within a stated period the investments do not fluctuate greatly, and that even though there are changes, they are known and can be controlled. On the other hand, the decisionmaking power on extrabudgetary investments is scattered. The regions and the enterprises make the decisions themselves in accordance with the market changes, and hence are subjected to highly fluctuating conditions. The overly rapid increases in capital construction investments in our country from the end of 1984 to the first half of 1985 were principally due to the violent fluctuations of this portion of investments. Since extrabudgetary investments change in accordance with changes in the investment environment and are highly fluctuating in nature, fluctuations in interest rates cannot but produce effects on the decisions regarding this portion of investments.

First, decisionmaking on extrabudgetary investments is determined by the anticipated benefits of the investments. Under the condition of the cost of production, production scale, and prices of product remaining unchanged, the size of the anticipated post-investment benefits is determined by the high or low level of the interest rates on loans. When the loan interest rate is low, the investment benefits are high and the urge for investment is strong; when the loan interest rate is high, the investment benefits are low and the urge for investment is weak. When the interest rate is as high as to offset the investment benefits or convert the benefits to losses, then investment will come to a halt. Only when the interest rate is extremely low and the investment benefits are extremely high will the decision on this portion of investments have no regard for the cost of acquisition of the funds. Following the rise in the interest rate on loans, investment units will reconsider their investment decisions. Hence, this portion of extrabudgetary investments, the decision on which follows market changes, obviously possesses interest elasticity.

Second, in reality, loan interest is a kind of price phenomenon. It manifests the price for the use of a fixed amount of funds for a fixed period of time. When there is a general rise in the prices of various commodities and there is no change in the interest rate, it implies an actual fall in the interest rate. This will continue to generate a stimulatory effect on the extrabudgetary investments which have already shown an overly fast growth rate. In the fourth quarter of 1984, the

general index of retail sales commodity prices increased by 4.2 percent over the corresponding period of the preceding year. In 1985, this rising trend was not halted, and at the same time the interest rate on fixed assets investment loans charged by banks in our country remained unchanged. Of the latter, the interest rate on loans for periods of 5 to 10 years was only 3.2 percent. Thus, the rise in commodity prices made the interest rate, which had already tended toward being too low, become even lower, and further widened the disparity between the investment benefits and the cost of procuring funds. Naturally, this forcefully stimulated the demand for extrabudgetary investments and may be considered an important reason for the overly rapid growth in the capital construction investments in our country. The facts also demonstrated that the interest elasticity of extrabudgetary investments is not minimal at all.

Adjustment of the interest rate not only plays a regulatory role on extrabudgetary investments which have relatively high interest elasticity and are financed by loans, but also produces a direct effect on extrabudgetary investments not financed by loans. The sources of funds for investments not financed by bank loans are mainly from self-owned funds and the regions' self-raised funds. This portion of the investing units is actually loaning their own funds to themselves. Hence, their income should include interest on loans and investment benefits in two separate parts. In the event of changes in the interest rates on loans, investors using their self-raised funds will reconsider the quantitative relationship between the three factors of investments' actual benefits, interest on bank deposits, and interest on loans. If the loan interest rate goes up, under the conditions of the income remaining unchanged, the actual investment benefits will tend to be reduced and the motive for investment will likewise be reduced. In the event the disparity between the actual investment benefits and loan interest receipts is smaller than the interest receipts on deposits, then the self-raised funds will in all likelihood be converted into bank deposits. On the other hand, if the interest rate is relatively low, under the conditions of the receipts remaining unchanged, if the disparity between the actual investment benefits and loan interest is larger than the interest on deposits, the motive for investment will grow. Hence, we cannot overlook the effects that the adjustment of the interest rate can have on extrabudgetary investments not financed by loans.

In our opinion, we should resort to directly controlling the gross volume of loans for investments and adjusting the interest rate and consider them as two equally important measures in the control and regulation of the gross volume of social investments. Doing so has the following advantages:

First, it is helpful to balancing the supply and demand of credit and loan funds and curbs the "hunger for investments." Directly controlling the gross volume of credits and loans is in reality directly controlling the gross volume of supply of credit and loan funds. This is not equivalent to controlling the volume of demand for credit and loan funds. Under the conditions of an excessive volume of demand for investments, if we control the gross volume of state credit and loans, the investors' excessive demand for credit and loan funds still remains. For the sake of procuring the funds needed for investment, they will turn to other means of raising and

procuring funds such as seeling loans from the populace or from foreign banks. The investment inflation already in existence will continue to be aggravated. If the interest rate is raised, the actual receipts from investment will be changed, the investment motive will be weakened, and the demand for loan funds will be weakened, which will promote balancing of the supply and demand of credit and loan funds.

Second, it is beneficial to promptly and flexibly adjusting and regulating the gross volume of social investments. The direct control of the gross volume of credits and loans relies on the formulation of a credit and loan incoming and outgoing plan and is relatively stable during the period of the plan. Extrabudgetary investments follow the changes in the investment environment, which subjected to rather severe short-term fluctuations. Since it is difficult for the direct control of the gross volume of credits and loans to control and regulate them, they frequently come into conflict with the state's investment plan and need to be promptly adjusted. Adjustment of the interest rate can promptly regulate and affect the demand for extrabudgetary investments. Hence, directly controlling the gross volume of credits and loans for investment and adjusting the interest rate can flexibly adjust the gross volume of social investments.

Third, it is beneficial to guiding the direction of extrabudgetary investments. How to macroeconomically guide the direction of investments carries an important significance in the coordinated development of the whole national economy. Use of the method of directly regulating the distribution ratio of loans to regulate the investment ratios of departments of the national economy and of the regions is of course workable, but to directly regulate the distribution ratios of credit and loan funds among the enterprises is rather difficult. Therefore, after the larger ratios have been determined, use of the method of differential interest rates to concretely guide the directions of the investments of enterprises and individuals is a more flexible and effective method than the use of a unilateral method to control the ratio of investments.

The above has analyzed the effectiveness of using the methods controlling the gross volume of credits and loans for investments and adjusting the interest rate to regulate the gross volume of investments. However, these methods also have definite limitations. At present, the prevalent patterns of investment motives are the following: one of them is the pattern of growing returns. Decision making in investment is principally determined by the anticipated benefits of the investment. Regarding this pattern, the role of financial means is comparatively clear. But in the case of certain projects with relatively large potential benefits, the investors will, disregarding changes in the interest rate, strive first to seek an opportunity for loans. Under such conditions, reactions to the interest rate are not clearcut and the role of the financial means will be affected. The second of them is the pattern of the increment in output value. Decisionmaking on this type of investment principally lies in consideration of the political tasks. It has the objective of doubling and redoubling the output value as the principal basis while the anticipated returns of the investment take a secondary place. This type of investment is principally manifested in the financial investments of the localities. The investors

will disregard the investment costs, thus putting the regulation role of financial means under limitations. Hence, we believe that with the present state of our country, aside from the adoption of financial means, it is still necessary to attach importance to the regulation role on the gross volume of social investments played by financial and administrative measures and to carry out the coordination and combination of various means to strengthen the regulation of the gross volume of social investments.

1. Making use of taxation to regulate the scale of extrabudgetary investment: In the gross volume of social investments, extrabudgetary investments are of a fluctuating nature. In particular, regarding those among them not financed by loans, the difficulty of effecting control and regulation is rather great. The state may utilize the taxation lever to strengthen the control and guidance of extrabudgetary investments and impose a construction tax on them, particularly those financed by self-owned funds and self-raised funds. In the event of the prevalent ailment of "investment hunger" and a serious shortage of gross supply, it may impose a "capital construction tax" and adequately raise the tax rates so as to restrict the growth of gross demand for investments. But when investments have fallen off or are insufficient, the tax rates can be greatly reduced, terminating eventually in nil. Prompt adjustment of the tax rate can counter extrabudgetary investments' special feature of a fluctuating nature and thus can effectively regulate this portion of investments.

2. Stepping up planned management and controlling the scale of investments financed by the self-owned and self-raised funds of the localities: Among the extrabudgetary investments, local financial investments occupy a rather large proportion. Financial measures play a rather weak role vis-à-vis this portion of investments. It is necessary to step up administrative and management measures and strictly require local finance to submit for approval their investment projects. The localities should not be allowed to carry out any investment projects. The localities should not be allowed to carry out any investment plans which have not gone through the procedure of the upper-level authorities balancing, examining, and approving the projects. By so doing, we can effectively regulate the portion of extrabudgetary investments which do not respond sensitively to the financial measures.

3. Strengthening the role of rural credit network, promptly absorbing idle civilian funds, and reducing the volume of directly-merged funds: In recent years, there has been a rapid increase in the amount of idle civilian funds in the countryside, which have become an important source for the raising and congregation of funds for extrabudgetary investments. The causes for this situation are: 1) A rapid increase in the income of the peasants; and 2) non-development of the credit enterprise in the rural areas. Hence, it is necessary to set up and perfect the rural credit network, strengthen the work of rural credit cooperatives so as to timely absorb and effectively utilize idle civilian funds and to play the role of controlling and regulating the scale of extrabudgetary investments.

If we can make the various regulatory become coordinated and organically integrated with each other and fully display their functions, we can effectively control and regulate the gross volume of social investments.

NATIONAL POLICY AND ISSUES

ALTERNATE OBJECTIVES FOR FINANCIAL POLICY DURING NEW PERIOD

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[Article by Liu Rongcang [0491 3310 3318] of the Finance, Trade, and Material Resources Economic Research Institute of the Academy of Social Sciences of China: "Alternative Objectives for the Financial Policy during the New Period"--written Jan 1986]

[Text] Financial policy, currency policy, and income policy are the three kinds of measures in the endorsement of macroeconomic control, particularly the shift from principally direct control to principally indirect control. This article is intended to express certain tentative views on the problem of alternative objectives for financial policy beneficial to macroeconomic control.

I. Assessment of the Objectives of Traditional Financial Policy

The objectives of the financial policy in the traditional economic structure are unified receipts and expenditure and an assured supply of financial power. The principal drawback to this pattern lies in the "unifying" and "assuring," that is, in "unifying" all the sources in financial allocation to "assure" the availability of financial power to meet socioeconomic development. In making a detailed analysis of the theoretical and practical basis of this objective for financial policy, it may be found that, on the one hand, it conforms with the pattern of a highly centralized socialist traditional economic management, that is, it has its historical objective necessity, and has certainly played an important role in meeting the need to centralize social financial power to lay a material and technological foundation for our country's socialist economy; on the other hand, it is closely related to our prolonged lopsided understanding of socialist economy, particularly the concepts of the whole society as a "gigantic factory," of the highly centralized unification of receipts and expenditures in financial power and the ensuring of supply as the only road to the enforcement of a socialist planned economy, and of the superior character of the system of public ownership of the means of production. Seen from its drawbacks, this objective of a financial policy of the "supply pattern," which has the basic special features of "unification" and "assurance" and of the method of "everybody eating from the same big pot" in financial supply and use of funds, not only seriously impedes the effective concentration and effective use of social financial power and deters the enterprises

from becoming relatively independent commodity producers and operators which internally possess economic motive power and externally are subject to economic pressure, but also exerts immensely adverse effects on the realization of a socialist planned economy and on effective macroeconomic control and the management and regulation of the economy.

First of all, this pattern of an objective for financial policy can very easily bring about an "unlimited urge for expansion" and "thirst for investment" on the part of the enterprises and society as a whole and cause social investment demand to become blindly inflated, thereby frequently leading to an imbalance in the growth of social gross supply and social gross demand, and also endangering macroeconomic control, the basic content of which precisely calls for such a balance between social gross supply and demand.

For a prolonged period of time, due to the investments of state-run enterprises being under the complete charge of state finance, there has existed a problem known as "soft budgetary control," which permits the use of funds without compensation and nonresponsibility for investment results. As a result, this has brought about the phenomena of fighting for targets, for investments, and for equipment, competition among enterprises to expand the scale of their investments, and a deep interest in expanded reproduction by extension. The outcome has been a "zeal for expansion" and "thirst for investment" which, in turn, brought about an inflated demand for investment--literally a chronic and stubborn ailment in socialist economic life. The phenomenon of so-called economic shortages, a special feature under the conditions of the public ownership system, may to a large extent be traced to these causes. On the one hand, a restricting mechanism curbing investment demand and its excessive growth was lacking while, on the other hand, there was strong backing in financial resources and supplies for investments which were secure and unquestionable on account of their features of "guarantee" and "protection." The natural outcome could only be the breeding of a strong zeal for expansion of investment, which, because of the practice of "everybody eating from the same big pot" in the use of funds and the improper mutually competitive trait of seeking quick and high results, was daily aggravated and difficult to suppress.

Second, the traditional financial policy which has the basic special features of unified receipts and expenditures and guarantee of financial supply and the resultant conditions of a passive type of financial allocation and financial supply are the direct causes of the excess-distribution of finance and national income and the over-issuance of banknotes, being thus the important influential factors of the excessive investment and input of capital and funds, the inflation of social demand, and loss of macroeconomic control.

Finance possesses a dynamic role which cannot be underestimated in macroeconomic control and macroeconomic regulation. However, over many years, in the actual practices in our country's economic and financial work, all along there has been a phenomenon of the "planning commission fixing the project and the financial department paying the bill." The functional departments of finance frequently have occupied the position of the

"cashier" and "keeper of banknotes." Be it in the planning arrangements for the whole national economy or in decisionmaking on the scale of social investment and on important and big investment projects, finance has basically occupied a position which is after-the-event, passively protecting the money supply, and also passively raising and using financial funds for protection or enforcement of projects. Hence, the so-called themes of national financial strength restricting the investment scale and the so-called balanced budget are frequently an after-the-event restriction and balancing of the passive type. For the sake of maintaining a fixed high economic growth rate and realizing an abnormal scale in capital construction investment, the state's finance cannot help frequently bearing, in its operations, burdens that exceed the limit, or being forced to make allocations that are over-the-limit or excessive. By so doing, it not only loses to a very large extent the restrictive function of financial power but also causes an artificial over-expansion of social demand. Since this kind of above-quota allocation of funds frequently cannot be replenished by other means, the only alternative is to resort to bank overdrafts to make up the deficit, forcing the banks to correspondingly issue more banknotes. By so doing, financial expenditures and the corresponding growth in social demand have become dislocated from the actual growth of national income and financial revenues for a stated period. This endangers the overall balance of finance and credits and loans, funds and material resources and demand and supply, and adversely affects the effective macro-control of the economy.

Furthermore, due to the evils of "unifying" and "guarantee," causing financial measures to lose to a large extent their flexibility in operations and their important functions in economic regulation, the traditional objectives for financial policy cannot effectively control and guide the macroeconomy.

Under socialism, financial allocation itself, taxation, financial subsidies, and so forth, are all extremely important economic regulation measures. Their employment has an extremely important significance in the macro-adjustment and control of the economy. But the objectives for the financial policy of unified receipts and unified expenses and one-sided protection and guarantee of financial supply precisely go against putting these kinds of regulation roles into full play. This is because on the one hand under the policy of "unifying" and "guarantee," there is no objective need for employing this kind of economic regulation, because if everything is unified and guaranteed, what is the need for further adjustment and regulation? On the other hand, there is definitely no possibility of using financial and economic levers to carry out economic regulation and adjustment, because regardless of whether the expenditure is proper or not and regardless of whether the decision for investment is rational or not, just the same finance has to "guarantee supply" and no ground is left for any alternative or making flexible regulations or adjustments. Actual practice has shown that this pattern of an objective for financial policy not only cannot effectively play the role of carrying out macroeconomic regulation but also serves as an important impediment to the use of other economic regulatory measures (such as the levers of pricing, credit and loans, and so forth).

In addition, in the past, enforcement of the highly centralized, unitary and mandatory type of planned management and the system of unified receipts and expenditures which was out of joint with responsibility, power and benefits rendered the existence of enterprises as being merely the subordinates of administrative organs at various levels, devoid not only of innate economic motive power and the necessary decisionmaking power in production and operation but also of any external economic force of compulsion and an environment for market competition. Under such conditions, the use of macro-financial regulation measures apparently possesses neither any objective necessity nor a corresponding microeconomic basis.

II. Alternative Objectives for Financial Policy Which Are Beneficial To Macroeconomic Control

Following the intensified progress of the reform of the economic structure and the shift of the economic pattern and economic mechanism from principally direct control to principally indirect control, the objective for our country's financial policy is currently undergoing changes and a strategic track-shifting. For the present and a certain period from now on, the search for objectives for financial policy which are beneficial to macroeconomic control seem to revolve mainly around the following several directions:

1. Objective of a balanced budget for financial policy. Maintenance of a balanced budget that is sustained and stable is the basic starting point and minimum requirement of a socialist financial policy. A financial policy that insists on balancing revenues and expenditures and leaves a little surplus has an extremely important significance in regard both to the coordinated and stable development of the planned commodity economy and to macroeconomic control under the conditions of the reform, opening up, and invigoration of the enterprises.

Hence, viewed from the prolonged financial practices in our country and the realistic requirements for economic development and reform of the economic structure, from now on it is essential to solve, pointedly and well, the following problems:

First, we should rigidly and thoroughly carry out the principle of the state restricting by financial means the speed of socioeconomic development and the scale of capital construction. On the basis of changing after-event restriction to before-event restriction, we must firmly refrain from undertaking a financial budget that embodies red figures in any form. In particular, in the determination of the state's capital construction investment plan, we should desist from carrying out any red-figure budget for the current year and should also refrain from making any post-investment arrangements of a "de facto" nature and thus enter into "excess-load" operations. We must strive to treat equally, and make a comprehensive balance of, the short-term investment plan and the long-term and medium-term investment plans, through integrating them. Simultaneously with the gradual formulation of a healthy "state investment law," we should endow the financial functional departments with veto power over red-figure budgets

and overly large investment programs, thus basically rectifying the status of the state's financial departments being merely "cashier" departments and "banknote receiving departments" and their condition of passively protecting and guaranteeing the supply of financial power.

Second, we should abolish and forbid financial departments from using the method of making unconditional overdrafts from banks to meet deficits. This will avoid finance from making excess allocations and the issuance of banknotes purely for a financial purpose, block the road of retreat of unbalanced budgets, and prevent the abnormal expansion of social demand and the loss of macroeconomic control arising therefrom. In other words, we should take the "dual" lanes of effecting a balanced budget and normalizing banknote issuance to facilitate and strengthen effective control of the macroeconomy.

Third, we should adopt effective measures to gradually overcome the phenomenon of "soft budgetary restrictions" which has long existed in financial revenues and expenditures and, by means of "hardening" the budget provisions, to facilitate and ensure the balancing of financial revenues and expenditures and prevent the growth of financial deficits of the "punishing" type. According to past conditions, it is particularly necessary, on the basis of establishing a healthy state budgetary law, to prevent the interference, wrecking, and pounding of budget balance from top officers' wishes, "top officer's projects," and top officer's approval of random schemes, verbal promises, and orders and directives.

Naturally, through the 7 years' reform, the structure of the social funds and the sources of investments in our country have displayed a tendency of dispersion and of having many channels and levels. In particular, the growth of extra-budget funds and credit and loan funds of banks has been especially rapid. The balancing of financial revenues and expenditures itself does not necessarily indicate, and cannot completely influence, the balancing of social funds. Nevertheless, under the conditions of the system of public ownership of the means of production and a planned commodity economy, and with financial funds serving as important financial sources directly grasped in the hands of the state, principally used on social basic facilities and major construction projects of the state, and serving as the financial basis for realizing and developing the socialist planned economy, whether such funds have been used well or not only exercises extremely great influence and restrictions on the operations of other social funds, on the social investment environment, and on the external conditions of the production and operations of the enterprises but is also deeply related to the formation of the basic proportionate relationships of the national economy and their changes or readjustment. Financial balance itself not only is the foundation for the overall balancing of finance with credit and loans and foreign exchange but also exerts an extremely important influence on the balancing of the latter two sectors themselves.

In short, both in theory and practice it has been repeatedly shown that in order to realize the overall balance of the national economy, particularly a balance in the price sector, and strengthen and improve macroeconomic control, it is essential that a balanced budget must be taken as the primary objective for the financial policy of our country.

2. Regulation objectives for policies on financial allocation, financial tactics, and financial operations.

Over many years, the provision or supply type of finance, in coordination with the role of the supply system of credits and loans, has nearly completely negated the regulation functions of socialist finance over socioeconomic life. Precisely because of this, under the conditions of liberalizing and invigorating the microeconomy and vigorously developing urban and rural socialist commodity economy, it appears most urgent and extremely important to attach great importance to the objective of regulation of financial policy. This meets the need for strengthening macroeconomic control and also the need, under the new conditions, for fully displaying the functions of socialist finance. Hence, in accordance with the actual conditions in the past and at present, it seems that we should attach great importance to studying for the realization of the following three changes:

First of all, we must bring about a change from the past type of finance, which merely provided funds to a type of finance that takes in operations and management. If such a change is not realized, it will not be possible to earnestly study and correctly handle the economic interest relationships of various sides in the new era. Nor will it be possible to devote efforts to strengthening the enterprises' vitality and enhancing the socioeconomic effects or to gradually learn the socialist way of handling finance including making, accumulating, and using money or also learn how to gradually strengthen the capacity of operation and management in the process of raising, allocating, and using funds, or consciously follow and apply the law of value and fully utilize various kinds of economic levers and financial tactics so as to effectively control, influence, and regulate macroeconomic operations. If it is said that in the past, finance frequently and in a passive way raised and allocated funds according to the designations of a fixed program or "plate" and to a large extent lacked the initiative to do any regulation or adjusting work, then from now on it should energetically display its functions of restricting, intervening in, and supervising socioeconomic development. In particular, it should transform its guiding ideas and, starting from the angle of operation and management and through implementing an effective financial policy, on the one hand handle well and use well the limited financial power of the state and, on the other hand, employ various special financial means such as taxation, financial subsidies, and diversified forms of state credit to influence, regulate, and adjust the workings of the national economy.

Second, in handling the distribution relations between the state and the enterprises we must bring about a change in policy from unified receipts and unified expenses and the state being solely responsible for all profits and losses to liberalization, invigoration, and continual strengthening of the enterprises' vitality. Basically speaking, the relations between

the state and state-owned enterprises follow the line of fund and asset relations and the interest distribution relations based thereon. Therefore, whether an enterprise, on the basis of the integration of responsibility, power, and benefit, can possess a powerful internal economic motive force, brisk life power and vitality, or the capacity for self-transformation and self-development, and whether it can truly become a relatively independent and autonomous commodity producer and entrepreneur that is also solely responsible for its own profits and losses are to a large extent determined by the state and the enterprise correctly handling their economic relations and material interest relations. If it is said that the past, financial structure and its policy of advocating unified receipts and expenditures and the state being solely responsible for all profits and losses impede and strangle the display of enthusiasm, initiative, and creativeness, then, now, and from now on, an important objective for the state's financial policy in the new situation should comprehend the following: How to further correctly handle the distribution relations between the state and the enterprise so that while the state's financial revenue receipts can be effectively enhanced, the enterprise's vitality can continuously be invigorated, how to break the practice of "everybody eating from the same big pot" in the use of funds, to correctly handle the relations with regard to supply of funds and assets between the state and the enterprise, and simultaneously with gradually solving the problem of "soft budgetary restrictions," to promote and facilitate and effective use of state funds and assets, and how to determine the enterprise's power of making investments, scope of investments, and the relative enterprise's level of profit retention, so that it is beneficial to macroeconomic control and able to make the enterprises continuously tap their internal potentials and able to carry out their own self-development and self-transformation.

Third, we must realize the policy change from attaching importance simply to the use of financial funds inside the budget to attaching importance to and guiding the overall utilization of the social gross financial power. At present, our country's social gross financial power includes not only the financial funds inside the budget and the credit and loan funds of the banks but also the daily increasing and voluminous extra-budget funds, the imported and utilized foreign funds, funds derived from social raising of funds by diversified forms, and from aggregations in fund-merging relationships. The state of the input and movements of social gross funds exerts an important influence on the growth of social gross demand and is therefore an important content of macroeconomic control. Nevertheless, in the past and at present, we have confined our attention to planned arrangements for financial funds within the budget, exceedingly neglecting the unified planning and comprehensive use of the social gross financial power and social gross funds. As a result, the phenomena of "extra-budget" elbowing out "inside-budget" and extra budget tapping the inside of the budget frequently occurred, thereby bringing about in the movements loss of control and maladjustment of a punishing and pressing nature. This is damaging to effective control of the macroeconomy.

This being the case, how is it possible to display the regulating role of financial funds vis-a-vis other social funds? Seen from the current conditions, I believe that first of all it is necessary to put the role of the diversified forms of credit of the state into full play, particularly, to enforce the method of integrating various forms of the state raising funds with the state participating in fund-raising projects, so as to achieve the purposes of the state actively participating in and regulating the raising and utilization of funds. For example, on the one hand, with regard to the problem of the state directly raising funds, the existing unilateral form of issuance of treasury notes should be changed to issuance of state debentures in various forms, for diversified purposes, and for long-term or short-term durations, such as special project construction bonds (specially related to a certain large construction project), educational bonds, science and technology development bonds, and short-term state debentures for specially designated purposes; on the other hand, with regard to certain large-scale social fundraising activities (such as regions and departments building local railways, highways, ports, and harbors and other undertakings by means of the social raising of funds), we can selectively adopt the method of the states participation, to achieve the purposes of the state supporting and regulating the raising and utilization of social funds. Next, we should flexibly use the economic levers such as taxation, financial subsidies, and so forth to carry out active guidance of the operations of the social funds. For example, regarding fundraising projects encouraged by the state or in compliance with urgent social needs, they may be endowed with the privileges of tax reduction or exemption and measures like providing financial help or the state undertaking to pay the interest payments, so as to effectively smooth out and guide the flow of social funds.

3. Objective for the starting point and end result of financial effects.

Economic effects are the starting point and end result of all economic activities and economic policies. Selection of the objective for a financial policy is no exception. Under the conditions of a socialist planned commodity economy, aside from actively opening up financial sources, building up financial power, and well organizing financial revenues, only through closely comparing the "expense and effect" on the financial side—that is, studying the problem of financial effects—can we effectively shift, not only finance itself, but also the whole national economy, to the track of taking the improvement of the socioeconomic effects as the centre. In accordance with our country's prolonged financial practices, from now on it is particularly necessary to make a fundamental change in the guiding ideology for arrangement of the financial plan and for the policy of financial expenditures. There must be liberation from the past state of one-sidedly "ensuring" expenditures and "being wholly responsible" for expenditures. We must accomplish the objective of taking need as the basis or criterion for weighing what is important and what is urgent. We must take the guarantee of improving financial effects as the centre to plan and restrict financial expenditures and to guide and control the demands for state financial funds, to the end that financial functional departments may change from passively supplying funds to using funds with initiative

and efficiency. Only through directly liaising between an enterprise unit's "expenses" incurred for finance and its own "income" and the "income" of state finance and truly letting it strive for the material interests of the unit and its staff members and workers, can we fully arouse the enterprise unit's enthusiasm for increasing its income and practicing economy in expense, enable it to possess an innate economic motive power, and able to take up responsibilities. This can then ensure that the state's financial revenues will follow the increase in expenditures and in the volume of its input and attain stable growth. At the same time, it can make the material interests of the spending unit and its staff members and workers rise in conformity with the high or low economic benefits and with whether economy has been practiced in the expense outlay. Simultaneously, in making the concrete arrangements for financial expenditures, it is necessary to treat the anticipated financial effects as the important basis for formulating and fixing the plan for financial expenditures. This will break through the old "base figure" method--that is, the former customary procedure of taking actual expenditure figures as a basis for arranging the new plan for expenditures. When assessing and checking the financial expenditures, it is necessary to compare the anticipated financial effects with the actual financial effects and take it as an important content for assessment and checking. Good results will be rewarded while poor results will be punished. Reward and punishment should be fair and stress must be laid on the actual results. By so doing, it will be possible to effectively overcome and restrict the inflation in the demand for financial investment and operations, to functionally control the unlimited growth of expenditures, avoid building blindly, producing blindly, using financial funds randomly, thereby facilitating and ensuring the realization of the objective for financial effects under the conditions of practicing economy in expenses and effecting an increase in revenues.

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NATIONAL POLICY AND ISSUES

ECONOMIC JOURNAL DISCUSSES PRICE REFORM

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[Article by Chen Hongobo [7115 3163 0590] of the Urban Economic Management Department of the Huazhong Normal University: "Evaluation of the Price Reform During the Past 7 Years and Suggestions for the Price Reform During the Seventh 5-Year Plan"--written in February 1986]

[Text] I. Evaluation of the Price Reform During the Past 7 Years

Our price reform has been going on for 7 years. A great deal of experience has been gained. No matter how the reform develops in the future, it is necessary to review the price reform over the past 7 years. This article is not a systematic review; it only puts forth several ideas for consideration.

From 1979 to the end of 1984, China launched "seven major campaign's in price reform. These campaigns are the raising of the state purchase prices of agricultural products and the urban selling prices of eight categories of nonstaple foods and the products made from them; the raising of the price of coal; the raising of fares for rail freight and passenger transport by boat; and the readjustment of the prices of cotton fabrics, synthetic fibers, tobacco and alcoholic drinks, and watches. Consequently, the serious problem of irrationality of our price system began to be alleviated. In the case of the price management system, the rigid system whereby the state alone determines prices has been shaken off. Many forms of pricing have been introduced; for example, centralized pricing by the state, floating prices, freely determined prices, and so on. Price management powers have been gradually assigned to lower levels. The path of reform whereby decontrol is integrated with readjustment has been created. These reform measures have enormously promoted our national economic development and have led to the accumulation of a great deal of experience useful to the in-depth development of our price reform.

With the shifting of the focus of our economic system reform from the countryside to the cities, the task of price reform has become more pressing. In 1985, our price reform was formally launched. Under the guiding principle of integrating decontrol with readjustment and advancing in cautious steps, the state purchase price of live pigs and the selling price of pork were decontrolled; the rural purchase and selling prices of grain were readjusted; fares for short-range transportation by rail were raised; in the case of some means of production, price differentials, relative prices, and ex-factory prices

were readjusted; and there was the abolition of the regulation which stipulated that that portion of the industrial means of production which the enterprises concerned produced in excess of production targets and which they sold on their own cannot be priced above a level 20 percent higher than the prices set by the state. Moreover, various big and medium-sized cities have successively decontrolled the prices of vegetables and aquatic products. With the introduction of these reform measures, aside from those prices stipulated in state contracts concerning orders for purchases, the prices of agricultural products have basically been decontrolled; among manufactured consumer goods, all small commodities have had their prices decontrolled; and enterprises have been allowed to set prices for their unplanned output of industrial means of production. With the introduction of the "double-track system" of pricing in 1984, the scope within which the market mechanism plays its role in price determination has widened.

We should fully acknowledge the enormous positive social effects of the price reform. Decontrolling the prices of agricultural products has strongly promoted the development of agricultural production and the restructuring of rural production. Reform in the pricing of manufactured consumer goods has stimulated output growth, so that market demand is more satisfactorily met. The "double-track system" of pricing industrial means of production is also playing a positive role. Because the reform in the pricing of the means of production directly affects the enterprises' economic results, the enterprises' business activities begin to be constrained by the market mechanism and their adaptability has strengthened. From the consumers' viewpoint, the price reform can undoubtedly help alter their conception of persistently stable and low prices and help eliminate their fear of price rises, so that they can gradually adapt themselves to the commodity economy. Perhaps this is the most important social effect of our price reform.

However, we cannot ignore the negative social effects of the price reform. At least the several problems associated with the price reform of 1985, as discussed below, can be observed. First, the price reform is governed by the guiding principle of pausing at every small step to study its effects, like crossing a river by feeling the stones studding it. Although this method has the advantage of relative steadiness and will not cause fluctuations for the economy, as a whole it shows that we lack adequate preparation in the aspects of theory, practice, and social mentality in carrying out our reform, that we lack an overall reform program with price reform as its center, that various reforms cannot fit well to form a complete system, that we have a poor understanding of the economic setting in which we carry out our price reform, that we have not fully foreseen the repercussions of the price reform, and that we have not had countermeasures embodying good foresight. Consequently, the price reform was rashly carried out, without any assistance. If the price reform is incompatible with the wage reform, if the lag in wage compensation is relatively long, or if after decontrolling the urban prices of nonstaple foods these prices generally rise and remain persistently high, then the state can only grant more special subsidies while the existing subsidies are not cancelled, so that the amount of subsidies increases, contrary to the aim of the price reform, and the masses feel that the subsidies cannot cover the comparatively bigger price rises. There will be much discontent. This pressure forces the enterprises to retain profits

by various excuses and to distribute a larger amount of bonuses and material rewards to workers. This is a factor fuelling the expansion of consumption funds. Second, a relatively elastic economic setting and some effective means of macroeconomic readjustment and control are lacking. The price reform of 1985 was a relatively large-scale undertaking, but the economic background was that since the fourth quarter of 1984, both investment and consumption funds had been expanding simultaneously, overdistribution of national income had been occurring, and the abnormal issue of currency had increased, with the total quantity of money getting out of control. Consequently, structural price rises were interwoven with inflationary price rises, causing relative big rises in market prices. Moreover, the change in our economic model caused the dispersal of financial resources, the decentralization of the power over investment, and the strengthening of the role of price signals, so that the enterprises began to gear their action to short term or ultra-short term interests; but in that period of system change, the state's macroeconomic control ability was relatively weak and its means of indirect control ability was relatively weak and its means of indirect control were far from perfect. Thus, how to use the market mechanism was yet a new task. Before the problems concerning soft budgetary restraints were solved, a new problem of softening of restraints by banks arose. This made it difficult to achieve equilibrium in aggregate quantities through macroeconomic readjustment, so that inflationary price rises could not be easily and effectively checked. The series of restrictive measures adopted in 1985 were actually administrative measures which conflicted with the aim of the reform and thus were not permanent good measures. Third, although the "double-track system" of pricing the means of production has reduced the discrepancy between the demand for and supply of certain products in short supply, it has also produced some negative effects which must not be ignored. In 1985 the prices of the unplanned output of the means of production rose rapidly, causing general increases in the costs of products of the processing industries and hence increases in the prices of the products of the machine-building industry and light industries. Owing to the overly large discrepancies between list prices and market prices, the enterprises have strived for lower planned targets for output and sales but higher planned targets for distribution, so that the link of circulation has become the breeding ground for various kinds of improper practices. One of the objectives of the "double-track system" of pricing is to further invigorate the large and medium-sized enterprises. Actually, the large enterprises are basically fettered by planning, but the vast numbers of small enterprises, subject to a lesser degree of restraint by planning, can reap large profits despite their backward production technology and operational standards. The results has been the anomalous phenomenon of "low prices for high quality products" and "high prices for poor quality ones." Moreover, the unit magnitude of investment diminishes, seriously discouraging the development of economies of scale and causing the waste of valuable resources. Fourth, since the hefty rise in the state purchase prices of grain, grain is no longer underpriced as it was during many years in the past and the increase in grain output has been greatly promoted. However, since grain prices were raised, the prices of various industrial crops and agricultural and sideline products have also risen, so that grain prices are again at the bottom level. If the relative prices of agricultural products are not further readjusted, the further development of grain production will inevitably be adversely affected. Fifth, with the decontrolling of the prices of nonstaple

foods in the cities, the state-run commercial enterprises are required to actively participate in regulation by market mechanism, to absorb and release goods and materials as necessary in order to stabilize market prices. However, being restrained in many ways, these enterprises have weaker competitive ability and cannot very satisfactorily play their role as the dominant channel.

Price reform is a new thing for us and problems associated with it are inevitable. The question is how we should view them and what corresponding countermeasures can be adopted. Faced with those problems, we can have two alternative sets of viewpoints and choices: First, we can think that the price reform is a complete failure, and in order to prevent further rises in prices, we can completely halt the price reform or restore direct state control over prices; second, we can think that despite the relatively high cost of our price reform, bringing flexibility to the formerly rigid pricing system and ending the longstanding situation of depressed prices constitute an important step toward success in price reform, and we should conscientiously review experience and opportunely push our price reform forward. I think only the latter can be the correct choice. Practice reminds us that the price reform must proceed. What we need is more adequate preparation in the areas of theory and social mentality, the close coordination of various reform measures, the symbiotic integration of macroeconomic measures with microeconomic measures and of planning with the market mechanism, and, in particular, the perfecting of the market mechanism and the strengthening of means of indirect control.

II. Evaluation of the Target Model of Price Reform

Regarding the target model of price reform, people have increasingly more fully understood, through theoretical study and the practice of reform, that it will be impracticable to try to rely on some kind of central social agency to provide guidance for the overall price reform by duplicating prices through calculation using modern calculating instruments and teaching models. Under the condition of prices being seriously distorted, the data used in calculation are naturally extremely unreliable. Even if we did possess scientifically more reliable data, the theoretical prices obtained through calculation would considerably deviate from the actual movement of prices, whether they are based on value or some converted form of value. Theoretical prices that are compatible with value or some converted form of value amount to some theoretical abstraction, while the prices in real economic life are formed in the market during the process of exchange through the interaction of a series of economic mechanisms. Nevertheless, I am not negating the need for calculating theoretical prices. Calculating theoretical prices on the basis of the total amount of socially necessary labor contained in certain categories of commodities is a useful attempt to calculate the magnitude of value in commodities. Using the repeated substitution method to calculate the absolute labor consumption according to the input-output model can undoubtedly yield an approximate of the whole materialized-labor consumption and living-labor consumption in the production of products. Therefore, it is necessary to calculate theoretical prices in view of the need for analyzing the basis of price formation. Used for correcting data, theoretical prices can help us evaluate projects, compare results, and draw up plans, and can be used to stimulate the formulation of price reform policies and to measure

the effects of price changes. Thus, theoretical prices can be used as an indicator of the extent to which prices deviate from value during a certain period and a reference system useful in formulating pricing policies. However, we must confine the role of theoretical prices to the scope of value and must not use them to duplicate prices in actual movement, because many exogenous variables cannot be accommodated even in the most perfect price models. The basis for choosing the target model for price reform should be the examination of the actual process and mechanism of price formation.

On the other hand, there are shortcomings in advocating equilibrium prices. Theoretically speaking, equilibrium price is an abstract phenomenon. Ignoring explanations in bourgeois economics, it actually belongs to the category of value. Determined by the equilibrium point on the demand and supply curves, the equilibrium price can only exist at a given point in time. It resembles value, the axis around which price moves, or a converted form of value, and it can also be viewed as an average during a given time period. In economic reality, demand and supply are rarely in equilibrium, and market price often deviates from the equilibrium price. Therefore, equilibrium price is also an ex-post description, rather than a direct manifestation, of price movement. In economic reality, the attainment of equilibrium price entails a market condition of free competition, but in China a perfectly competitive market, and hence the necessary setting for the attainment of equilibrium price, does not exist. Moreover, the perfectly competitive market is not a goal for China's planned commodity economy. Market price is spontaneously formed through the functioning of the demand-supply mechanism and is blindly regulated by an "invisible hand." This necessarily involves a waste of resources and the destruction of social productive forces, with the attainment of macroeconomic goals entailing a tortuous and turbulent process. Obviously, this is not a path we should choose.

In studying the target model of price reform, we should proceed from the basic characteristics of China's economic system model and the principal tasks of its system reform. Ours is a planned commodity economy. Although the principles and mechanism of operation of this economic model have not been fully manifested, at least its basic framework is clearly understood. The basic characteristic of this economic model is the high degree of symbiotic integration of the planning mechanism with the market mechanism. It differs from both the traditional planned economy model characterized by a high degree of centralization and the market economy model with the market predominating. Neither is it a jigsaw-like combination of the planning mechanism and the market mechanism. It embodies the interweaving of the planning mechanism and the market mechanism, the symbiotic integration of regulation by planning based on the market mechanism, with regulation by market mechanism under the guidance of the planning mechanism. The target model of price reform must be compatible with the basic characteristics of this economic model. Because this model is a sublation of the traditional one which rejects the market mechanism, introducing the market mechanism and extending its role constitute the principal task in our reform. I think we should opt for the coexistence of flexible planned prices and planned market prices to suit the planned commodity economy model and also take planned market prices as the principal form of the target model of price reform.

A central link and principal task in our economic system reform is the invigoration of our enterprises, particularly large and medium-sized ones under ownership by all people, genuinely turning them into relatively independent units which produce or deal in commodities, which operate on their own, and which assume sole responsibility for profits and losses. To genuinely invigorate the enterprises, not only must the enterprises be given every category of power appropriate to a unit producing or dealing in commodities, with their responsibility also correspondingly clearly defined, but, and this amounts to a very important link, the condition of existence of competition external to the enterprises must be created, so that the enterprises' production and operation activities external to the enterprises depends on the perfecting of the market system. For another thing, further invigorating the enterprises and strengthening macroeconomic control requires that the principal mode of enterprise management must undergo a change from direct state control to indirect state control and that the principal means of control must be economic means, though there are legal means and some necessary administrative means. This will inevitably call for the strengthening of the role of the market mechanism and perfecting of the market system. A number of conditions are necessary for the perfecting of the socialist market system. The principal one is that the price system must be rationalized and a good signal system must be established, so that the price system can quickly, accurately, and sensitively reflect market conditions. The building of this good price signal system and the normal functioning of the role of price in turn depend on the perfecting of the market system where the price system functions. Before the price system is rationalized, the market system can hardly become perfect. This will restrict the functioning of the role of price, so that new distortions may occur in those prices which have already been rationalized. Such is the inextricable interweaving of problems.

Owing to the viewpoints above, I hold that the principal aim of the price reform is not to design a theoretical model used by the state to set prices, but is to create and perfect a working mechanism of, and the necessary setting for, price movement, so that under the functioning of this mechanism and the influence of this setting, market price can move according to its own laws of movement and can have self-regulating functions. The state can bring price movement in line with macroeconomic goals by controlling the price formation mechanism and transforming the economic setting. This actually gives rise to two tasks in our price reform and economic system reform: First, we must promptly perfect the socialist market system where the market mechanism functions; and second, we must promptly perfect the means of indirect macroeconomic control which is effected through various economic levers. Price is formed through the interaction of the planning mechanism and the market mechanism. This basic characteristic distinguishes the system of pricing with planning from price setting by the state with the help of certain theoretical models and distinguishes it from the spontaneous formation of market prices. The perfecting of the market mechanism and the means of indirect macroeconomic control is the primary condition necessary for the building and normal functioning of this pricing system. The market mechanism functions under the guidance of planning, while regulation by planning is based on the functioning of the market mechanism. The two things supplement each other and merge to form a single system.

According to the model of market pricing with planning, centralized pricing by the state will be reduced to the minimum scope that is necessary, such as the pricing of rail transport, postal and communications services, and some other services. Moreover, centralized pricing does not imply fixed prices, but involves flexible planned prices based on the law of value. In the case of the overwhelming majority of products, the power of setting prices is assigned to the enterprises, with the functioning of the market mechanism directly determining their market prices. This system of market pricing with planning is directly linked to the market and can thus sensitively reflect market changes and opportunely transmit market information to the enterprises. In using price as a lever, the state will no longer adopt the method of artificially making price deviate from value, but will use various means of indirect control to affect price changes so that it can transmit the intent of its plans to the enterprises through price signals, thus guiding the enterprises' production and operation activities onto the track of state planning.

III. Tentative Suggestions About Price Reform During the Seventh 5-Year Plan

The Seventh 5-Year Plan period is a crucial one in China's economic system reform. The advance of various categories of reform calls for new developments in price reform. Currently, however, it is difficult to make big advances in price reform owing to the limitations of various economic conditions such as our macroeconomic control capability, the extent of development of market organizations, the situation of demand and supply, society's ability to cope with changes, and disequilibrium in aggregates. Faced with this problem, we should objectively assess the economic situation and cautiously decide on the tasks and steps of price reform during the Seventh 5-Year Plan period.

I think the dangers and possible repercussions of disequilibrium in aggregates should be appropriately assessed. However, this problem must not inhibit the development of price reform. It is only in the course of reform that certain problems can be solved, like the perfecting of the market system and means of indirect control, the blending of various categories of reform to form a complete system, the stimulation of increase in the supply of products in short supply, the perfecting of the "double-track system" of pricing the means of production, and so on. Therefore, we must bring about substantial achievements in price reform during the Seventh 5-Year Plan period and set goals for reform in this period compatible with the overall target model of price reform. Here I will put forth several suggestions for discussion:

First, during the earlier part of the Seventh 5-Year Plan period, particularly in 1986, the focus of work should be consolidating and stabilizing the price reform measures that began in 1985, solving the problems created by the price reform of 1985, analyzing the main experience of the price reform over the past 7 years, and on this basis vigorously grasping the design of a program of overall reform with price reform as the core and making adequate preparations in the area of theory and social mentality for further advances in price reform. The experience of the price reform over the past 7 years has fully demonstrated that price reform, as an enormous social engineering project, cannot be undertaken solely by the goods and materials departments. It

needs the close cooperation of various quarters of society and various reform measures. In the past, various categories of reform have been incompatible with each other and segregated. Now this situation must end. The formulation of the price reform program must be led by the State Council and undertaken mainly by the goods and materials departments, with the participation of the commissions, offices, departments, and bureaus in charge of finance, banking, wages, planning statistics, and various specialized sectors. Aside from containing detailed stipulations about implementing the tasks and steps of reform, the program must contain an appropriate assessment of the possible consequences of price reform and provide corresponding countermeasures. The completed reform program must be fully discussed by the masses and can be implemented only after repeated feedback collection and revisions. Propaganda about price reform must be strengthened by various methods and the necessity of price reform must be explained to the masses, so that people's fear of price rises can be gradually eliminated and the broad masses can become the main force in price reform and pricing supervision. Thus, possible problems in price reform will involve lower costs in terms of social mentality effects. This work is of crucial importance to the success of our price reform.

Second, the overall guiding principle for price reform in the Seventh 5-Year Plan period should continue to be the integration of decontrol with readjustment, with cautious steps being taken in advancing. Those products marked by a considerable discrepancy between demand and supply should mainly be subjected to readjustment. In the case of some other categories of products, demand and supply are roughly in equilibrium, or discrepancy between demand and supply has diminished. The prices of an entire category of such a product may be fully decontrolled, or the proportion of decontrolled prices in a category can be appropriately enlarged, as warranted by the specific circumstances. Correspondingly, in various cases, the scale of readjustment or decontrol may be small, may be of medium magnitude, may develop to a medium magnitude as small changes accumulate, or may become large as medium magnitude changes accumulate. The shocks of the reform should be spread out over a number of years. The general principle is that the annual rise in social retail prices must surely not exceed 5 or 6 percent. The price management powers of localities and departments must be appropriately increased and the past method whereby the state exercises centralized control or applies its policies from the highest to the lowest levels must be changed so that certain reform measures can be moderated in some regions between the microeconomic arena and the macroeconomic arena and so the pressure for macroeconomic control is reduced. Some local markets can be appropriately opened, so that for certain products, partial equilibrium can gradually develop into overall equilibrium.

Third, concerning the form of pricing, the structure whereby centralized pricing by the state, floating prices, and freely determined prices coexist will continue to exist. As reform proceeds, the scope of centralized pricing by the state must be gradually reduced and the scope of free pricing must be extended. Floating prices as an intermediate form between planned prices and freely determined prices should be the principal form of pricing. All this should be done in preparation for a transition to market pricing with planning.

Fourth, reform in the pricing of the means of production should be the focus of the price reform of the Seventh 5-Year Plan period. Thus, urgent needs arising in the "bottleneck" links of our economic development can be appropriately eased, a foundation can be laid for the full-scale rationalization of the price system, and the control of market price fluctuations can be improved. The "double-track system" of pricing the means of production, which will continue to exist, is merely a special thing created under some specific economic conditions. It cannot be completely negated in theory, but its role should not be exaggerated. The principal measure effective for solving the existing problems associated with the current "double-track system" of pricing is as follows: For the currently seriously underpriced planned output of energy resources, transport and communications services, materials, and raw materials, prices should be raised in stages and category by category. The proportion of unplanned prices should be increased step by step and with planning. The extent of decontrol must be limited by the enterprises' ability to absorb and digest the changes, so that most of the price rises cannot be passed onto consumers of their products. Supply must be vigorously increased amid the interaction of readjustment and decontrol and differentials between planned prices and unplanned prices must be gradually reduced. This is done in preparation for a transition to a single-track system of pricing. Moreover, the prices of agricultural products must be further readjusted. In the later part of the Seventh 5-Year Plan period, the prices of consumer goods must be rationalized, so that the problem of inversion between state purchase prices and selling prices and the problem of fiscal subsidies can be solved.

Fifth, various categories of reform must be coordinated so as to create a good setting for price reform. In the earlier part of the Seventh 5-Year Plan period, the focus of work should be vigorously perfecting the indirect means of control, strengthening macroeconomic control capability, maintaining an appropriate extent of economic growth, roughly maintaining equilibrium between aggregate social demand and supply, controlling the quantity of money issued, imposing more rigid budgetary restraints on enterprises, and quickening the formulation and implementation of relevant economic laws and regulations. It should be particularly stressed here that the reform of the banking system must be quickened. Banks should be run like ordinary enterprises, various restrictions imposed by administrative bodies on banks must be removed, and banks must have a stronger ability to impose restraints. Thus, banks can become the main force in investment, playing a more powerful role in directing the flow of funds and controlling the expansion of investment, and they can become an effective lever by which the state exercises indirect macroeconomic control.

Sixth, an expansion of the role of the market mechanism is a trend in price reform. As mentioned above, developing the role of the market mechanism and effectively restraining the enterprises' action depend on the perfecting of the market system. Therefore, during the Seventh 5-Year Plan period, the building and perfecting of the socialist market system must be quickened. Of crucial importance is the further opening of three major markets: The product, capital funds, and labor markets. Regarding the product market, we should fully know the structural problems in China's consumer goods market. At present, because changes in the pattern of supply of consumer goods lag behind changes in the pattern of demand, a large amount of money has precipi-

tated, that is, many people are saving or holding money for future purchases. For one thing, by means of price reform, we should provide correct price signals to guide the readjustment of the production structure and product pattern and to rationalize the mechanism of demand for and supply of consumer goods, so that the large balance of outstanding social purchasing power can be used in actual purchases. For another thing, in combination with the reform of the wage system, we should extend the range of income and create a more extensive hierarchy of consumption, thus lessening the pressure on the market caused by overconcentration of consumption demand. At present the market of the means of production should not be opened to an excessive extent owing to the considerable shortages. However, conditions must be created, in coordination with the practice of the "double-track system" of pricing, for the further opening of the market, and a smooth flow in the circulation channels must be facilitated, so that enterprises can have a wider range of choice. Regarding the capital funds market, we should fully endorse and support various forms of raising of funds in society, adopt effective measures to solve problems, strengthen the horizontal circulation of funds, help convert a part of the consumption funds into production funds, and gradually create conditions for developing transactions in securities. Regarding the labor market, we should gradually change the rigid employment system, create labor flow and competition for employment, quickly establish and perfect the social insurance system, separate the wage system from the social welfare system, and make budgetary restraints on wages more rigid. The gradual opening and perfecting of the three major markets mentioned above will help demolish the barriers to the flow of production factors, bring about optimal resources allocation over the whole economy, and make budgetary restraints on enterprises more rigid. Hence, it will have great effects on the attainment of equilibrium market prices. Price reform and the perfecting of the market system must proceed together, each with its own emphasis. However, how can the market be perfected before price distortions have been corrected and how can price reform be successful before the market system has been perfected? This will undoubtedly remain a predicament in our work.

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ECONOMIC MANAGEMENT

COMMENTARY ON INDIRECT MACROECONOMIC CONTROL, REFORM

Wuhan CHANGJIANG RIBAO in Chinese 3 Nov 85 p 1

[Commentary by staff commentator: "Macroeconomic Control Also Constitutes Reform"]

[Text] During the past few years, we have done some not insignificant work and achieved some not so small results in the opening up and enlivening of our microeconomy. Today, the party Central Committee has suggested that, while further perfecting our microeconomic activities and organic systems, we should at the same time reinforce our indirect control in the macroeconomic aspect. This is an important guarantee for our reform to proceed in the correct direction.

Some comrades cannot altogether understand why we must reinforce our macroeconomic control. They often put macroeconomic control and microeconomic enlivening in opposition to each other, thinking that the reason for reinforcing macroeconomic control is because the delegation of power to the enterprises has become excessive, so that it is now being "reigned in"; they are worried that such reinforcing of our macroeconomic control would "strangle to death" the enterprises that have already been "enlivened." or they would stress the special characteristics of their respective localities or departments by requesting a relaxation of such macroeconomic control.

We think that, while microeconomic opening up and enlivening are reform, macroeconomic control also constitutes reform. What we speak of as macroeconomic control does not mean going back to the old path of directly controlling the enterprises but exercising indirect control over the enterprises by the application of economic levers and economic laws. Only by solving this problem well can we create good environment and conditions for further enlivening our enterprises. Some comrades say, an enterprises is like a kite, while macroeconomic control is like the string that flies the kite; enlivening an enterprise is namely flying the kite. When we fly a kite, we must have some string; when that string is too long, the kite cannot be flown; but lacking the string, the kite would be either blown away or simply fall down. This analogy may not perhaps be accurate enough, it is nonetheless somewhat enlightening to us for correctly understanding the relationship between macroeconomic control and microeconomic enlivening. Doing a good job in exercising macroeconomic control would not cause us to find our enterprises

harder and harder to handle, but to find them becoming more and more vitalized.

Doing a good job in our reform of macroeconomic control makes a reform that can play a decisive role in the overall situation; compared to microeconomic enlivening, macroeconomic control is even more complicated and difficult. It requires the economic management departments of governments at all levels to carry out corresponding readjustment and reform and to improve their level of scientific policymaking. It requires them to catch up in respect to the application of economic levers, the perfecting of our economic legislation and economic supervision, etc. And it requires them to form a set of means for organic control that would organically combine planning with the market, and microeconomic enlivening with macroeconomic control. Only thus can we promote the healthy development of our reform and realize benign circulation in our national economy.

How to explore and learn to exercise macroeconomic control indirectly is the basic work for carrying out economic restructuring in the cities. In the case of the central cities, they are linked to the whole situation of our national economy above, and to the cells of our social economy below--the enterprises; on the matter of reinforcing our macroeconomic control, they play the important role of receiving from those above and passing down to those below. We must conscientiously implement our party Central Committee's principles, policies and demands on macroeconomic control; at the same time, we must also proceed from reality, plan uniformly and coordinate everything, control that which needs to be controlled and release that which needs to be released without resorting to doing all things the same way. Under macroeconomic control our central cities must serve well as "conveyers" by regularly analyzing the prevailing situation, coordinating policies, and play the regulatory and supervisory role of economic levers. In respect the exploration of the separation of the enterprises from administration and the exploration of the diversion of our governmental functions, they must make great strides.

Our reform must be perfected continuously through practice. We must both do a good job in macroeconomic control and enliven our microeconomy; in these respects we do not have any ready experiences displayed anywhere; they require us to continue to sum up and continue to make progress through practice.

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ECONOMIC MANAGEMENT

JOURNAL ON IMPROVING MACROECONOMIC MANAGEMENT

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[Article by Run Junjin [0117 1498 0955] of the Investigation and Research Office of the People's Bank of China: "Some Problems in Improving Financial Macroeconomic Management"]

[Text] Countering the excessively inflated market demands in the fourth quarter of 1984, in 1985 the state enforced a retrenchment policy. Following a year's efforts, the macroeconomic results achieved have become very obvious: Loans to township enterprises, which at one time had increased rather rapidly, have been controlled within the annual plan; loans for fixed assets investments have strictly followed stipulations of the plan and the limits have not been exceeded; even under the conditions of further developments in commodity prices and adjustments of the wage structure, during the whole year issuance of banknotes dropped drastically compared with 1984; and following the enforcement of stern macroeconomic control and the merging and regulation of funds, the requirements for funds for the purchases of agricultural and sideline products, products for export to earn foreign exchange, and marketable goods have all been met. What did the year's practices explain? At least three things can be ascertained: First, in comparison with balancing in kind, regulation of the macroeconomy in value terms produces faster effects in rectifying the situation of excessive demand and is simpler and easier to carry out. Second, under a planned commodity economy, finance is one of the basic means employed by the state to control the economy. It is an exceedingly correct decision to employ economic levers to regulate the whole economy and to realize the objective of macroeconomic control; third, use of banking as a tool to regulate the economy represents itself an important reform in macroeconomic control and is a big breakthrough in banking theory and practice in our country; the practice has propagated the banks to the populace and has won the country's acclamation, resulting in unprecedentedly great importance being attached to banking work.

However, use of the banks to regular the economy is, after all, a new experiment in our country. The reform of the structure has a problem of coordination, and we are short of a complete set of experiences. As a result, as

for how to meet the requirement of continuing to keep the social gross demand under control during the first 2 years of the Seventh 5-Year Plan, there are still several problems which we must further study and which must be solved well and systematically.

First, there is the problem of expanding the coverage of the macroeconomic control of finance. Last year, the phenomena appearing following the tightening of macroeconomic control were tightening of bank credit but a rapid rise in commercial credit in the form of prepayment of orders, sales on credit, and so forth among enterprises; indirect merging of funds was controlled but direct fund-merging activities were activated; inflation of loans was checked but the growth of the deposits of enterprises greatly diminished. All this shows that the measures of control exercised by the Central Bank were not complete and that the coverage was not wide enough, leading to a portion of social funds and commercial credit escaping the bank's direct control. This in turn brought difficulties to the control of the social gross demand. Hence, in the first 2 years of the Seventh 5-Year Plan period, the Central Bank, in addition to continuing the control of the amount of rediscounted loans of the specialized banks, should enlarge the coverage of its macroeconomic regulation.

1. Guiding commercial credit: According to statistics of certain regions, of last year's industrial growth rate, 50 percent had come about through the enterprises delaying payments to each other or owing each other funds. This practice among the enterprises is an important channel for the expansion of investments and consumption. Hence, it is necessary to keep it under regulation through introducing the use of financial instruments or notes. Specialized banks should undertake the discounting of financial instruments and the Central Bank should, through enforcing a rediscount policy and a rediscount rate, regulate the scale and direction of flow of commercial credit and make it become coordinated with the objectives of the Central Bank's monetary policy, thus perfecting the credit structure.

2. Effecting control over society's fund-raising activities: Expansion of the fund-raising scale of various localities has become an important factor in the balancing of the incoming and outflow of credits and loans. In 1985, the increase in deposits of enterprises was some 30 billion yuan less than in 1984. This was another important channel for the expansion of investments and consumption. As a transitional measure, we should fix the principles of governing the top limit of fund-raising in the localities and the distribution of profits. The highest limit should preferably not exceed 10 percent of the self-provided investment of the localities, while distribution of the profits should preferably not exceed the highest interest rate payable on the debentures issued by the banks. The distribution method which guarantees both "dry and liquid earnings" and provides that payment of both profits and interest should be prohibited. The scale of fund-raising and credit and loan funds should be subjected to unified arrangement, restricted to use on investments in sectors such as energy, communications, and raw materials. At the same time, legislation should be grasped, so that control should be by law and conditions be prepared for the lateral flow of funds and the formation of a capital market.

3. Enlivening and invigorating the measure of keeping reserve funds for deposits: At present, the role of the measure of reserve funds has not been put into full play. The amount of the reserves should be proportional to the circulating character of the deposits; that is, the higher the circulating character, the larger the amount of reserves funds to be kept or delivered. The provision of a set 10 percent should be changed. The reserve funds for deposits delivered by the specialized banks should not be interest-bearing, but high interest should be paid on excess deposits. The proportion of reserve funds for deposits cannot remain static, but should be flexibly adjusted in accordance with the need for expanding or tightening, so as to lead the scale of loans of specialized banks to the track of macroeconomic demand.

Second, there is the problem of strengthening the vitality of financial enterprises. The policy on credits and loans of selecting the best borrower and providing differential and preferential treatment has long been carried out, but insofar as the financial enterprises are concerned, loaning money to A or to B or to C is the same. It is thus difficult to adjust promptly the flow and the structure of funds, and at the same time we cannot avoid making a decision that is general. It will also be difficult to enliven the economy. All this is due to the financial enterprises lacking an innate vitality. There is hardly any response to the macroeconomic regulation measures in the microeconomic financial activities. Therefore, we should invigorate the financial enterprises just as invigorating the industrial and commercial enterprises.

A bank is an enterprise handling money and funds. The basic earmark of a bank operating like an enterprise is its possession of decisionmaking power regardint the handling and operation of funds and the corresponding responsibilities. There are three problems here which we must handle well: 1) demarcation of funds: Among the Central Bank and the specialized banks, there is not necessarily any connection between the plan and the management of funds. The Central Bank does not bear the responsibility of providing the funds to fulfill the sanctioned credit and loan plans of the specialized banks. The specialized banks should themselves organize and find deposits, borrow from contemporary banks, or issue debentures to procure the funds, and take the road of self-balancing. In the event of the funds being insufficient, the Central Bank may be resorted to for loans. For its part, the Central Bank must have in its grasp sufficient funds to flexibly regulate, according to the economic development needs, market conditions and commodity price indices, the scale of credits and loans, and money supply, so as to ensure the coordinated growth of the economy and to realize the macroeconomic objective of currency stability. Within the specialized banks, the upper-level units cannot guarantee the lower-level units the supply of funds for fulfillment of the plans. The system of three levels of management and one level of operations should be changed to operation by units at separate levels. The latter should earmark their own operation funds, operate independently, carry out independent business accounting, pay taxes according to law, set up various kinds of funds according to regulations from the after-tax profit retentions, change the units' all-round incoming and outgoing relationships with regard to funds to deposit-and-loan relationships, and totally

break the practice of "everybody eating from the same big pot" in the use and employment of funds. 2) Assessing and checking the financial enterprises: On the basis of the funds having been earmarked, a strict economic responsibility system should be installed so that there is decisionmaking power regarding loans and there is also responsibility borne for the risks of loans and errors in granting loans, thus integrating the three factors of responsibility, power, and benefits. Based on our country's situation, the assessment of financial enterprises cannot be based principally on the profit target as the criterion; importance must be attached to social benefits. It is suggested that a structure of assessment targets be installed, comprising fund-raising rate, fund operation rate, rate of acquisition or production, cost of funds, and recovery rate of loans and the average turnover rate of the same category of loans. The different proportional weight of each and every one of these assessment targets in the overall business performance should also be determined. They should be employed separately in the assessment and linked with the interests of the financial enterprises and their staff members and workers. The assessment targets should exercise the following function: forcing the financial enterprise to invigorate their funds and to seek the highest results in the use of the funds and invigorating the economy. 3) The problem of relations among banks and enterprises: The banks' practice of opening their doors wide to provide funds to the enterprises is an important reason for certain enterprises going into debt heavily so as to support production which yields low returns and to convert a large amount of circulating funds into fixed asset investments. Following the banks being run as enterprises, they and the enterprises bear an relationship of two economic entities in their relations with each other. When the benefits of funds and their return or recovery threaten the interests of the financial enterprises, the safety factor of funds will make the banks more appropriately watch their decision on the direction of loans. But before this emergency happens, necessary administrative measures should be taken: old enterprises should be required to put aside at least 10 percent of their after-tax retentions to supplement their circulating funds; when new enterprises and enlarged enterprises go into operation, they should follow the requirement of setting aside 30 percent of their capital as circulating funds. Any insufficient portion may be filled by bank loans, but a high rate of interest will be charged as a punitive measure. Capital losses awaiting replenishment should be made up by the enterprises themselves, for which there must be a fixed time limit. Enterprises which have uncollected outstanding accounts of long standing and have been falsely reporting losses as profits should not be given any loans. Loan funds should not be used to make good delinquent accounts which should have been examined and passed by the finance department but have not been so examined or passed and accounts which, according to policy requirements, should have been replenished but have not yet been so replenished. This can avoid expansion of credits and loans and losses for the state.

Third, there is the problem of facilitating the lateral flow of funds and the formation of a money market. At present, certain specialized banks have formed a system of their own. The flow of their funds is in a vertical

manner, and the more acute the demand for funds, the greater the difficulty to seek loans or discounts. This is like the situation at a time of a shortage of steel products, of setting up of a storage for steel products at each and every level. A situation like this runs counter to the development of lateral relations among the enterprises. The solution is: After the specialized bank has effected its own self-balance, the Central Bank will take the volume of loans designated in the budget and the target for temporary loans and, according to the economic development needs within the system, cut them piecemeal and assign the pieces at each season of the year to the provincial branch banks. The provinces will then, following the economic development plans of the localities, transfer the volume of rediscount loans assigned to the specialized banks to the city-level branch banks. This strengthens the power of regulating and adjusting funds of the city-level branches of the Central Bank and correspondingly cuts the power over funds possessed by the head offices of the specialized banks and the provincial branch offices of the Central Bank. The good point of this reform is that the city-level offices are in close contact with the economic activities of the enterprises and possess more knowledge about the business conditions of the specialized banks at their level and other financial organs. They are thus in a better position to control the scale of credits and loans, regulate and adjust the composition of funds, and merge the balances and deficits in the accounts of the various specialized banks. In the distribution and circulation of funds, the following situation is thus formed: Following the formation of economic regions with cities and towns as the centers, the strengthening of the lateral economic liaison and opening up of many channels for commodity circulation, and with the department as the principal factor in the system of the Central Bank and the region as the center between the Central Bank and the specialized bank, a money market with the city as the center is naturally formed.

In the capital market, the discounts market is of the utmost importance among the banks. Financial enterprises which operate independently are entitled to loan their surplus funds through discounts, with the interest rate being determined by supply and demand. The Central Bank should take part in both the inward and outward flow of their funds in the discounts. When the Central Bank grants loans to specialized banks or to the discounts market or absorbs the surplus funds of the discounts market, the volume and interest rate are determined according to the needs of an expanded or tightened money market. On the one hand, it must keep under its control the discounts market of its contemporaries, and at the same time observe the interest rate of the capital market so as to flexibly regulate the scale of credits and loans and money supply. The supply and demand of funds and the market mechanism can more accurately judge the laxity or stringency of the money market than can direct observation or planning. Only through exceedingly developing the discounts and loans market of the contemporary banks can the Central Bank's tactics of regulation and control be more sensitive, and only thus can the lateral flow of funds and the road to the specialized banks' self-balancing be opened up.

Fourth, there is the problem of it being necessary to maintain the relative independence of credits and loans. At present, financial organs in our country have been established according to the administrative regions. Banks at various levels are responsible for promoting the economic development of the various localities under the leadership of the local governments. But credit and loan funds come under the unified management and use of the state, and in a stated period they have a limited volume. Hence, handling well the administration of credits and loans in whole and in part and the contradictions in the economic development of the localities is an important guarantee for the realization of the objectives of the monetary policy. The conditions last year were: In the face of macroeconomic tightening or retrenchment, the various localities strongly claimed their respective special conditions, thus reflecting the extremely serious contradiction in the supply and demand of funds between the part and the whole, and the banks became the target of attack. Therefore, it is important to earnestly and thoroughly enforce the provisional regulations on banking control promulgated by the State Council, maintain the relative independence of credits and loans, and ensure that the specialized banks have decisionmaking power in granting loans. From now on, in the event of the branch organs of specialized banks or other financial organs being compelled to grant loans and subsequent losses being incurred, the administrative responsibility and economic responsibility of those persons directly responsible should be investigated and traced. This is an external condition extremely important for maintaining the specialized banks acting truly as enterprises.

Fifth, there is the problem of speeding up the coordination with the macroeconomic regulation tactics. The important point in the first 2 years of reform under the Seventh 5-Year Plan revolves around the need to stabilize the economy. The macroeconomic strengthening and perfection of the structure of indirect control is also an important embodiment of the reform. It is more complex and more difficult than microeconomic invigoration and direct control. Last year, the outstanding problem in economic life was that the growth arranged for in the plan was not high but the actual result doubled the plan: while investments under the plan were subjected to control, extrabudgetary investments grew at an uncontrollable rate; while the condition of financial revenues and expenditures was good, the phenomenon of excess distribution of the national income continued to exist. Obviously, the concrete employment of the economic levers met with difficulties and could not achieve the purposes, resulting in inflation of the investments and the control of consumption failing to reach the desired extent. For example, regarding how to guide the direction of extrabudgetary investments, effective measures were still lacking. As for those problems appearing in the initial distribution of the national income, the credit and loan levers were helpless and could not operate well in regulation. Hence, in the recent realization of the objective of controlling the social gross demand, it is necessary to earnestly control the extrabudgetary funds and to comprehensively control the extrabudgetary funds and to comprehensively employ the various kinds of economic levers such as planning, finance, taxation, auditing, and banking so that they can work as a coordinated whole and guide the microeconomic activities onto the track of macroeconomic demand. Looking to the future, through the overall control of the enterprises, the

following regulation mechanism should be gradually formed: The outside direct management and control of the enterprises should be changed to the enterprises' own regulation and control.

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FINANCE AND BANKING

JINGJI YANJIU ON FOREIGN EXCHANGE RATES, TRADE

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[Article by Wang Zhenzhong [3769 2182 0022] of the Economic Research Institute Under the Chinese Academy of Social Sciences: "Changes in Foreign Exchange Rates and the Development of Foreign Trade"--written in February 1986]

[Text] Following the changes in the economic system model and the reform of the mechanisms of economic movement, people have made increasingly pressing demands for the reform of foreign exchange rates. In a situation of opening up, the key to bringing into play the regulatory role of the pricing mechanism lies in the use of the foreign exchange rate mechanism. The substance of a foreign exchange rate is the exchange ratio between the comprehensive purchasing power of the currencies of two nations. The influence and the stimulatory power of the establishment of, and changes in, the exchange rates are greater than those of the pricing adjustment in any single area (for example, in the reform of agricultural and sideline products prices, the reform of industrial product prices and so on). They also have overall effects. What should the theoretical basis for formulating exchange rates be? This is a question which demands serious study and this article offers a few initial explorations.

1. The Major Avenues For, and Basic Patterns of, Changes in Our Nation's Foreign Exchanges Rates

Since the founding of the PRC, our nation's foreign exchange rate changes can be divided into four periods (using only the example of the exchange rate of the U.S. dollar to Renminbi).

The first period was 1949 to 1952. The exchange rate of Renminbi to U.S. dollars was first posted on 18 January 1949 in Tianjin. At this time, the rate was \$1 equals 80 yuan (old currency). In March 1950, unified national financial administration was introduced and on 13 March, the posted price for U.S. dollars was \$1 equal 42,000 yuan (old currency). On 28 September 1950, buying and selling prices were posted for the first time and at this time \$1 equalled 31,000 yuan (old currency, buying rate). On 16 December 1950, the United States froze our nation's funds. From 1 January 1952, the Chinese People's Bank ceased posting prices for U.S. dollars. The last

posted price was \$1 equals 22,270 yuan (old currency, buying price). In this period, because the ownership of the enterprises engaged in foreign trade was diverse and because the strongest force in trade was the private import-export commercial operators' trade with capitalist countries, the foreign exchange rate system was mainly a form of market regulation. In the continual fluctuations, a point of balance was sought and although the changes were extremely frequent, the most outstanding characteristic was that it tended from fluctuation towards stability and, following the decline of the rate of domestic currency inflation, the exchange rate gradually rose.

The second period was from 1953 to 1980. In 1972 Chinese-U.S. relations thawed and on 14 September of that year our nation's banks commenced again posting U.S. dollar rates, and the rate was \$100 equals 221.74 yuan. If we compare this with the posted rate when postings were stopped on 1 January 1952, we can see that over the period of 20 years, there had basically been no change. The notable characteristic of this period is that the exchange rate was in accord with the demands of planned fixed prices and the planned price management system, and our foreign exchange rates were basically in a solid condition. This was especially so from 1955 to 1971 when all along \$100 equalled 246.18 yuan. Because the IMF at this time also adopted a fixed exchange rate system, the effects on our nation were not great. After 1972, the tendency for our foreign exchange rate was basically straight-line appreciation. If we take the annual average figures for example, in 1972 \$100 equalled 224.01 yuan. In 1973, it equalled 200.53 yuan and in 1974, 187.70 yuan. In 1977, \$100 equalled 175.53 yuan, in 1978, 168.36 yuan, and in 1980 \$100 equalled 150 yuan. The situation of overvaluing in foreign exchange became more and more serious and we thus missed a good opportunity to regulate the level of the exchange rate.

The third period was from 1981 to 1984. Starting on 1 January 1981, there was an internal account-settling price of \$1 equalling 2.8 yuan implemented for trade foreign exchange. Non-trade foreign exchange was calculated at the price posted in the banks of \$1 equalling 1.5 yuan. This foreign exchange rate system did not achieve the desired results.

The fourth period was from 1 January 1985 to the present. From the beginning of 1985, the rate posted by our banks was devalued to 2.8 yuan and at the same time, internal account-settling was abolished. The notable characteristic of this year was the adoption of the method of small steps and repeated devaluations, while in the latter half of the year, the pace clearly quickened. On 23 August, \$1 equalled 2.9 yuan, while on 3 October it equalled 3.0 yuan. On 23 October the rate was \$1 equals 3.1 yuan and by October 30, \$1 equalled 3.2 yuan. Over a period of 10 months, the Renminbi was devalued by 14.29 percent against the U.S. dollar. This price has been maintained until the first part of February 1986. Our foreign exchange rate changes made in 1981 and 1985 were intended to make the sales price of imported products higher, so as to benefit export products. However, these two changes happened to coincide with high U.S. interest rates which stimulated great demand for U.S. dollars in all countries of the world. Thus, the dollar rose in value and the value of the currencies of a great many countries fell.

This had a worldwide reaction on international market forces, obviously restricting us in achieving the goal of using the foreign exchange rate changes to promote exports and reduce imports. This was because, as the dollar rose in value, the cost of goods we imported from other countries fell, thus inducing a growth in import demand. When we lose macroeconomic control, the imbalanced development of exports and imports becomes particularly clear. For example, if we compare 1983 with 1982, exports grew by 1.74 percent, while imports grew 6 percent. Also, comparing 1984 to 1983, we see that exports grew 9.95 percent, while imports grew 36.64 percent. Lastly, comparing 1985 to 1984, we see that exports grew 5.7 percent while imports grew 31.8 percent.

In brief, in these 37 years, the basic situation in our nation's foreign exchange rates has been one of moving from fluctuation to stability and then revaluation and finally devaluation. The period of consciously using the measure of devaluation to stimulate exports began in 1981, but it saw marked development in 1985. It is truly necessary to carry out theoretical analysis and forecast the effectiveness of using this measure.

2. The Economic Expectations and Actual Results of Devaluation

Like many other developing countries, our nation in its early stages of economic development seriously lacks foreign exchange and thus wants to use the measure of foreign exchange rate devaluation to realize certain economic hopes. The basic aim is to try to expand exports and increase foreign exchange income, as well as to protect domestic industry to achieve certain economic results. These results can be divided into long-term results and short-term results. Long-term results refers to where, through the devaluation of foreign exchange rates, changes in the export commodity structure are stimulated over a long period, so that domestic production resources are deployed in the best way and so that the overall national economy realizes a fine cycle. Short-term results include results in terms of income and results in terms of prices. The results in terms of prices can be further divided into the two levels of direct pricing results and results which affect prices. This is the focal point of this article's analysis.

What are called direct pricing results produced by devaluation means that foreign exchange rate devaluation on the one hand causes the prices of that country's export products to fall, thus gaining an advantage in price competition and stimulating the growth of exports. On the other hand, it causes the prices of this country's imported commodities to rise, thus curbing import demand. In this way, through the use of the single measure of foreign exchange rate devaluation a double effect can be realized, thus improving that country's foreign trade situation. However, whether the devaluation is able to increase exports and reduce imports, and the degree to which this can be realized are not things which can be determined by one's own wishful thinking. Rather, they are determined by that country's import and export commodity prices and supply-demand elasticity. Seen from the export angle, it is decided by the degree of the supply elasticity of the country's export commodities as well as the demand elasticity for those export commodities in the foreign country. Thus, the actual movement of export commodities after devaluation often differs greatly from what people hoped for and sometimes their hopes are even turned into disappointments. This is because:

1. The foreign price demand elasticity has diverse feedback and thus the devaluation will not definitely be able to ensure that exports increase by a great degree.

When a country devalues its foreign exchange rate, if that country's commodity export supply elasticity is infinitely great (that is the export commodities will continue to be produced under conditions of unchanged costs), then the transmission mechanism of the effects of devaluation will move as follows: the prices of the country's export commodities, expressed in foreign exchange, will drop in proportion with the rate of devaluation. Thus, its export quantities will inevitably increase. However, the interrelationship between the rate of increase in export quantities and the devaluation rate is not always one of a balanced change. The changes will be determined by the price demand elasticity of the foreign country for the export products of the exporting country. If the import demand elasticity of the foreign country is equal to one, then the rate of growth in demand by the foreign country for the commodities of the country which has devalued its foreign exchange rate will exceed the rate of devaluation. In the same way the growth rate of exports from the country devaluing will correspond to the degree to which export prices have dropped, which will result in the scale of exports being unchanged. If the foreign country's demand elasticity is greater than one, then that country's growth in demand for the commodities of the country which devalued will increase by a rate greater than the rate of the foreign exchange devaluation. Only at such a time will the growth rate of exports from the country devaluing be greater than the drop in the prices of its exports, and can exports thus increase. However, if the import demand elasticity of the foreign country is less than one, then the growth in demand for commodities from the country which has devalued its currency will be less than the rate of devaluation. At such a time, the growth of the exports from the country which has devalued will be less than the percentage drop in export prices. This will result in a shrinkage of exports. If we look at our nation's export trade, the 1981 internal account-settling price was in essence a 50 percent devaluation of Renminbi, but over the last 5 years, the growth in exports was far lower than the devaluation percentage. From 1981 to 1985 the respective annual growth of exports over the previous year was as follow: 14.34 percent, 4.74 percent, 1.74 percent, 9.95 percent and 5.7 percent. One of the major reasons for this was that our nation's export structure and the import structure of the major developed nations were not linked up. This clearly restricted the force of foreign demand elasticity in stimulating our exports.

2. Export supply elasticity is composed of many levels and thus devaluation cannot definitely ensure that export prices can maintain superiority.

If we say that whether export quantities can increase by a large margin following devaluation depends on the degree of demand by the foreign country, then whether a country's export commodities can, after devaluation maintain the competitiveness of low prices is determined by the changes in that country's export supply elasticity. Only if the country's export supply elasticity is infinitely great will the prices of the export of that country, as expressed in foreign exchange, not rise following the growth of export quantities after devaluation. However, in a normal situation, especially

in a developing country where both technological and management levels are very backward, the export supply elasticity is generally less than infinitely great. That is, production is carried on in a situation of steadily increasing production costs. Thus, the prices of the country's exports, expressed in foreign exchange, which will fall following devaluation, will gradually rise following the increase of export quantities. This has especially been so in our country since the pricing management forms saw various changes. The phenomenon of diversified pricing has followed these changes, which has led to quite a large increase in the production cost of export commodities. Taking only the 1985 prices of agricultural machinery such as diesel engines, tractors and water pumps produced in five provinces and cities including Shanghai and Jiangsu as an example, we see that they were 15 percent higher than the 1984 average. The result is that costs converted to foreign exchange have continually risen. For exchange of U.S.\$1 the cost was 2.48 yuan in 1981, up 7.36 percent on the previous year. In 1982, it was 2.67 yuan up 7.66 percent over the previous year. In 1983 it was 3.07 yuan, an increase of 14.98 percent over 1982, and then in 1984 it was 2.80 yuan, up 8.8 percent over 1983. Some people believe that the internal account-settling price set in 1981 was retroactive recognition of an established fact and its feedback role in terms of foreign exchange costs was very small.

In fact, the relationship between foreign exchange rates and costs converted into foreign exchange is not a uni-directional questing relationship. Rather, there exists a double directional stimulatory effect and it thereby becomes an extremely important link in the cycle of macroeconomic activities. Its course of movement is generally as follows: Currency inflation influences the upward movement of export commodity prices which makes import commodity prices more competitive. This influences the balance of payments and the employment rate and there is thus the possibility of devaluation. Devaluation leads to the price of import commodities rising. Thus, that country's commodity costs rise, which leads to price rise, currency inflation...and so the cycle continues. This is the second level of pricing results produced by foreign exchange devaluation, that is, results which affect prices.

3. There are five types of import-export situations and thus devaluation will not definitely cause the balance of trade to improve.

Devaluation affects not only exports, but also imports. Thus, we need to carry out a further investigation from the angle of the trade balance. After carrying out devaluation, five types of situation can exist in respect of the improvement of the balance of trade:

1. Exports increase and imports decrease.
2. Exports increase and imports remain unchanged.
3. Exports increase and imports also increase, but the increase in the former is greater than the increase in the latter.
4. Exports do not change but imports decrease.
5. Exports decrease and imports also decrease, but the decrease in the former is smaller than the decrease in the latter.

But in no matter which case, the devaluation will only be able to achieve an improvement in the trade balance if the sum total of the export demand elasticity and the import demand elasticity of the

country devaluing is greater than one. If it is equal to one, the trade balance will not be affected. If it is smaller than one, then the foreign exchange devaluation will cause the trade balance of the country devaluing to deteriorate. Thus, in the competitive environment of international markets, the act of devaluation can only be of benefit to the trade balance when the export supply elasticity of the country devaluing and the import demand elasticity of the foreign country maintain the same direction. Here, there are two possible situations: The first is when the import demand elasticity of the foreign country is quite great. In this case, the greater the supply elasticity of the exporting country, the greater the benefits that the devaluation will have in the improvement of the exporting nation's trade balance. The second is when the import demand elasticity of the foreign country is quite small. In this case, the smaller the supply elasticity of the exporting country, the greater the benefits that the devaluation will have in the improvement of the exporting nation's trade balance. If not, just the opposite will occur. The original intention would be that, through devaluation, the positive trade balance will increase, but unexpectedly the contrary effect would appear and the positive trade balance would continually decrease. The situation in our nation over the last few years has reflected this phenomenon. After commencing internal account-settling for trade in 1981, our positive trade balance figure has declined year by year. In 1982, it was \$4.249 billion, in 1983 \$1.99 billion and in 1984 \$0.014 billion. This produced a downward trend in our nation's recurrent projects' income-expenditure surplus. In 1982, this was \$5.674 billion, in 1983 \$4.24 billion and in 1984 \$2.03 billion. This shows that despite the devaluation, the trade balance did not improve. It can even be said that it is precisely because our nation's trade balance has all along seen a surplus, that the opportune decision to devalue lacked deep thought and, from the macro-economic decision-making angle, was not appropriate.

The Actual Deviation of Foreign Exchange Rates and the Position of the 'Three P' Theory

At present there are three theories of foreign exchange rates current in the world. I believe that these can be divided into two types: One type puts stress on explaining the factors in exchange rate changes, but overlooks the factors of foreign exchange determination. This type includes the international balance of payments theory and the remittance psychology theory. The second type puts stress on the factors of foreign exchange rate determination, but at the same time does not overlook the changes in foreign exchange rates. An example of this is the theory of purchasing power parity.

The international balance of payments theory was put forward by the English economist Goschen in his book "Theory of Foreign Exchanges" published in 1861. Although the book only had 150 pages, it has long been looked on as a classic of foreign exchange theory. This theory holds that changes in foreign exchange rates are determined by the supply of and demand for foreign exchange, and foreign exchange supply is determined by international credit relationships. People's criticism of this theory is mainly based on the argument that there are many factors which influence changes in

foreign exchange rates, and also because of the limitations the gold standard system engendered. Actually what they see as Goschen's "weak points" would be better seen as the only correct choices of an economist at that time. One point in this theory long overlooked by people is: the international balance of payments theory does not overlook the influence of the level of a currency's purchasing power within the nation on the foreign exchange rate. Goschen pointed out that the foreign exchange rate often changes following changes in domestic purchasing power. From this, we can see that the international balance theory and the theory of purchasing power parity have some common points and are not two completely antagonistic things.

The theory of purchasing power parity is known, in abbreviation, as the "three P theory." It was put forward in 1916 by the Swedish economist Cassel and, in "Money and Foreign Exchange Theory Since 1914" which was published in 1922, he provided a detailed explanation of this theory. This theory first explained the two questions of "why we need foreign currency" and "how changes in foreign currency as compared to domestic value affect the demand for the currency." He pointed out that the ratio between the purchasing power of the currencies of two countries is the "first and most primary basis" of the foreign exchange ratio between the two countries. Thus, when the amount of currency in circulation in the two countries changes, then the normal foreign exchange rate should be equal to the old foreign exchange rate multiplied by the percentage change in the two countries' currency quantities. According to the theory of currency quantities, the ratio of the changes in currency quantities can be seen as a ratio of price levels and can also be seen as an inverse ratio of the currency's purchasing power. Thus, the relationship between the new foreign exchange rate and the old foreign exchange rate can be expressed in a formula as follows:

The new foreign exchange rate for country A equals the base period foreign exchange rate for country A multiplied by the percentage change in the quantity of currency in country B, divided by the percentage changes in the quantity of currency in country A. This also equals the base period foreign exchange rate for country A multiplied by the price index of country B, divided by the price index of country A. This further equals the base period foreign exchange rate for country A multiplied by the percentage change in purchasing power in country A, divided by the percentage change in purchasing power in country B.

Some people negate this theory by proceeding from the negation of various basic premises, and especially by noting that various conditions outside the currency factors also change. Actually, this cannot negate the theory's functional nature. As Myrdal has said: "If we wished to prove that the theory of purchasing power parity is not universally valid, or if we want to prove that after international exchange remittance relationships suffer serious shocks, this theory will not accord with the theories of international trade, it will truly be simple work, but it will not attract the attention of ambitious scientists." Other people say that the theory of

purchasing power parity can be summed up as an explanation of the fixing of foreign exchange rates. This is not a complete understanding because in the theory of purchasing power parity, it is pointed out that in respect of the formulation of new foreign exchange rates, the major reason for changes in foreign exchange rates are the changes in purchasing power given rise to by changes in currency quantities. What should be made clear is that a foreign exchange rate determined by purchasing power parity is a type of "normal exchange rate" or "balanced exchange rate." It is not an actual exchange rate. The actual foreign exchange rate may be the same as the normal exchange rate or may be slightly higher or lower than it, but the trend of its movement will generally be towards the normal foreign exchange rate. Thus, the normal exchange rate is a proportional standard and point of balance for the actual exchange rate. That is, purchasing power parity is a standard for foreign exchange rate changes under a system which uses the normal foreign exchange rate as a paper standard. Thus, although the short-term changes of the exchange rates of various countries today may continually diverge from the balanced rate, and deviations will thus occur, under the regulation of the international market pricing mechanism, it will continually draw closer to the normal exchange rate. It is precisely as a U.S. woman economist Susan Schadler has said: "There is evidence to show that the long-term tendency of foreign exchange rates is to maintain purchasing power parity between currencies...in a situation where there is no great interference, people believe that maintaining purchasing power parity means that foreign exchange rates should change to offset fluctuation in relative prices between countries." (Footnote 1: Susan Schadler, "Interest Rate and Exchange Rates" in FINANCE AND DEVELOPMENT 1984, issue No 6). Thus, in studying the long-term changes in exchange rates, it is necessary to study changes in the domestic value of money, that is, it is necessary to study the changes in the purchasing power of money itself and the changes in price levels. The price of money over a long period can only be the real price of the money, representing the amount of commodities or labor it can be exchanged for. The long-term changes in the exchange rates of representative industrial countries confirm that exchange rates under a floating exchange rate system will in the end be subject to the currency inflation rates of different countries. If the base period exchange rate between two countries is balanced, but their currency inflation rates are different, it will result in the price of the countries' currencies changing to the same degree, but in different directions. Observe the two graphs below (Footnote 2: Taken from Robert "Macroeconomics"):

Exchange Rates
(Various Countries' Currencies/U.S. dollar)

	Canada dollar	France franc	FRG mark	Italy lire	Japan yen	Switzer- land franc	U.K. pound	U.S. dollar
1970	1.04	5.53	3.65	627	358	4.31	0.42	1
1982	1.23	6.57	2.43	1352	249	2.03	0.57	1

Average Annual Inflation Rate (Percent)

	Canada	France	FRG	Italy	Japan	Switzer- land	U.K.	U.S.
1970	8.6	9.4	4.8	14.1	6.3	5.4	12.4	6.9

We can take the exchange rates between the advanced nations in 1970 under a fixed exchange rate system as the exchange rate level at a time of balance (while not excluding the historical controversy of individual country's overvaluations). However, under a floating exchange rate system, the exchange rates for the currencies of the various countries as compared to the U.S. dollar, moved in the direction of their currency inflation. From the graphs, we can see that in this period the inflation rates for the FRG and Switzerland were lower than the U.S. inflation rate, and their currencies rose against the U.S. dollar. On the other hand, Canada, France, Italy, and the United Kingdom had inflation rates higher than that of the U.S. over this period and their currencies dropped against the U.S. dollar. These points show that the theory of purchasing power parity indeed has a feasible, practical significance. The relationship between currency inflation and foreign exchange value has caused people to pay particular attention to the degree of growth of the money supply. The money supply is used as a means of assessing changes in prices and as a basis for changes in foreign exchange rates. Thus, "in recent years various countries have begun to pay attention to the question of money supply in their economic policies, the various countries of Europe and America which had originally mainly used interest rates to formulate policies have, since the 1970's changed to financial indexes which stress money supply and which have quantities as their main part" (Footnote 2: Kosaku Furuta, the head of the Investigative Department of the Japan Kangyo Bank, "Views on the Financial Report" 1985). This is inevitable. Even though by looking at factors in exchange rate changes under the international floating exchange rates system over the last 10 years, people can see that while there are truly many factors which affect exchange rate changes, the one which holds the balance is the difference in currency inflation rates. Thus, since the dismantling of the Bretton Woods currency system, many countries still link their currency exchange rate to a basket of currencies or to various indexes of various countries.

What I would finally like to point out is that the "three P" theory and Marx' relevant theories are not as incompatible as fire and water. Once when Marx was speaking on one of the reasons for foreign exchange rate changes, he pointed out: "When a country's currency is devalued, regardless of whether it is a gold currency or a paper currency, the exchange rate change is purely a nominal one. For example, if now one pound only represented half of what it did formerly, then naturally it could not be considered to be 25 francs, and could only be considered to be 12.5 francs." (Footnote 3: Marx, "Das Kapital" Vol 3, p 668. Renmin Chubanshe 1975 ed.). He pointed out that price "is an index of the exchange rate between commodities and money." (Footnote 4: Ibid. Vol 1, p 120). Thus, the stress placed on money volumes by the "three P" theory is not a shortcoming. Rather, this is precisely the theory's strongpoint.

4. The Reform of Foreign Exchange Rates Must Be Carried out Carefully and Safely

The reform of foreign exchange rates is an extremely important part of the reforms to realize open-style pricing. If we say that the reform of prices for agricultural and sideline products is the overture, then the reform of foreign exchange rates can be considered the composition's climax. The reform of foreign exchange rates is a huge process during the pricing reforms. It is the most difficult stage, but it is something which must be done. This is because if we shirk this, we will not be able to strengthen the degree of market transparency. However, because the situation of our overvaluing in terms of foreign exchange has been created over a long period, we cannot try to improve things in a single morning. Rather, we must proceed from our national conditions and carry out the changes carefully and safely.

1. While studying the international use of devaluation measures, we must take the example of Brazil and such countries as a warning.

At present, when discussing how to expand exports, many people like to raise the example of what happened in Brazil and other developing countries through the devaluation of exchange rates. But, we should not forget that Chile also devalued its currency 26 times in 1975 and that Argentina in the 6 years following 1973 devalued its currency to one-eighth its original value. Although their export growth developed over this period, there was excessive growth in exports and this produced turmoil in their domestic economies. In fact, Brazil's experiences in this respect provide us with thorough-going lessons for example, the final result of Brazil's repeated devaluations was that it became heavily debt-ridden. If we take 1980 as an example, the country with the highest foreign debt in the world was Brazil, with debts totalling \$37.82 billion. The country with the highest debt interest payments was also Brazil, with interest payments of \$4.14 billion. The country with the highest debt repayment rate was also Brazil, with a rate of 34 percent. However, the situation further deteriorated. At the end of 1982, Brazil's total debt was \$87 billion and in 1983 it had to pay back \$30.8 billion, 117 percent of the 1983 export income. We know that foreign debt service ratio refers to the total amount of capital and interest which a country must repay over a year as a percentage of its foreign exchange income from exports (including both commodities and exports) within that year. This is an indicator of whether a country's foreign debt is heavy or light and whether debt repayment capabilities are great or small. The debt service ratio should in general not exceed 20 percent. If this figure is exceeded, it is generally held that that country's foreign debt is too great. Thus, debt credit is affected and this in turn affects the development of foreign trade. When income from exports over the year are lower than the amount to be repaid for debts in that year, it is disadvantageous to the development of foreign trade. Also, seen from the long-term, the continuous devaluation of the foreign exchange rates cannot realize the change from an internally-oriented strategy to an externally-oriented strategy. EUROPEAN CURRENCY did an investigation of the economic development

of 93 countries and regions over the last 10 years. The data showed that in the 10 years from 1974 to 1983: 1) The countries with the highest inflation rates were: first Argentina with an annual rate of 181 percent, third Chile with a rate of 79.6 percent and fourth Brazil with an annual rate of 65 percent. 2) The countries with the weakest currencies were: First Argentina, third Brazil and fifth Chile. 3) The place of the country's currency foreign exchange rate in terms of special drawing rights were: Chile occupied 89th position (an average change of 63.4 percent as calculated using special drawing rights), Brazil occupied 91st position (an average change of 70.6 percent as calculated using special drawing rights) and Argentina occupied 94th position (an average change of 181 percent as calculated using special drawing rights). 4) In terms of export growth: Chile occupied 86th position, Brazil 91st position and Argentina occupied 93rd position. 5) In terms of economic growth: Brazil was in 90th position, Chile was in 91st position and Argentina was in 93rd position. It is self-evident that the countries at the front in items 1) and 2) will inevitably be pushed to the end in items 3), 4), and 5). This situation can be compared to the two sides of a coin having the same value. We should pay great attention to these lessons.

2. In decisionmaking on changes in long-term exchange rates we must mainly rely on the international balance of payments.

When carrying out exchange rate adjustment, we must proceed from the macro-economic angle, and base ourselves upon the point of whether or not we can achieve a balance in our nation's international balance of payments for quite a long period. Thus, we should not just see foreign exchange rates as trade cost functions and forget that they are also overall international balance of payments functions. When we were having difficulties exporting and there were problems in expanding exports, and we thus adopted devaluation measures, it was at a time when our nation's foreign exchange reserves had a surplus. At that time, it was an opportunity to increase imports. Adopting the devaluation measure at this time pushed domestic prices higher and did nothing to restrain imports. As to whether taking another decision would have allowed us to realize the aim of increased exports and reduced imports is just idle theorizing. Practice has caused people to deeply ponder a point. That is, in a situation where Renminbi is overvalued, and where exports are in a slump, if we wish to consider using the devaluation measure to promote exports, so that it can play a role in promoting exports and reducing imports, a necessary condition is that the excessive demand within the country be controlled. Only thus can this role be brought into play.

3. This year's level of foreign exchange rates changes should be stable.

This year is a period of digestion for last year's price reforms. It is also a period of adjustment for the leaders and the masses in gaining a mental acceptance of the price changes. Thus, foreign exchange rates should generally be stable and we should not carry out repeated small devaluations. The specific reasons for this are as follows:

First, in a situation of lacking commodities and the slow improvement of labor productivity, it is difficult to look forward to devaluation producing, in the short-term, a speedy increase in exports or the realization of benefits. Rather, it will only cause the present domestic and international sales contradictions to become more serious and will exacerbate the degree of tightness in the supply of commodities within the domestic markets. At the same time, the foreign exchange income from the sale of commodities as a proportion of foreign exchange income from all aspects of the tourist industry has always been great: In 1980, it was 40.8 percent, in 1981 37.9 percent, in 1982, 38 percent, and in 1983 it was 37 percent. Devaluation also means that foreign purchasing power will increase and this will undoubtedly have a stimulatory role and will put pressure on market supply. We should pay special attention to the example-setting effects of the changing price levels of these commodities.

Second, devaluation causes the costs of imported commodities to increase and reduces the number of them imported. This prompts a growth in the demand for domestic import-substitution commodities. Now is not the right time for this. An important opportunity this year is provided by the decision taken by the "Paris Planning Conference" to remove the embargoes on our country in respect of advanced technological products in 27 areas. From operational soft-ware for large-scale computers to industrial-use robots and related equipment, and from civilian aircraft and helicopter equipment and parts to lasers and laser systems, all the bans were unfrozen. We should grasp this opportunity and, at a relatively low cost, obtain high-level technology. If at this time, we reduce imports and engage in some sort of replacement, it will not be of benefit.

Third, after prices within the nation were freed last year, the production costs of domestic factories also rose. Devaluation will result in imported commodity prices rising. When these imported commodities are used as the means of production, it will inevitably increase the tendency for production costs to rise. Thus, this will act as a fomenting agent in cost-push inflation. If imported commodities are consumer products, the price rises will lead through the example-setting effect, to changes in the prices of the same type of products within the country and this will affect the stability of the overall level of prices within the country.

Fourth, currency devaluation undoubtedly causes the amount of Renminbi an exporting unit will receive from the converted foreign exchange from the same unit product to rise. This increases their profit levels and thereby stimulates their enthusiasm for export. But it also means that the state bank will have to pay out more Renminbi for the foreign exchange necessary to purchase the same unit product and this will increase the amount of currency incirculation. Clearly this does not coincide with the idea of forming a relaxed economic cycle. Seen from the microeconomic angle, although our nation's total exports constitute 5.5 percent of our total industrial and agricultural output value, the degree of pounding received by domestic prices through devaluation is not determined by a percentage figure. The

direction of flow of the increased Renminbi amounts coming in to export enterprises are not differentiated by whether they are domestic and foreign. This provides increased difficulties for us this year in our macroeconomic control.

4. It Is Appropriate To Institute Complete Drawbacks as Export Subsidies.

In order to stimulate exports, it is a common international method for governments to provide certain subsidies for export products over the whole process from production to sales. We should not crudely negate this method. In fact, I am afraid that it would be quite difficult to find any country where there is not a relationship of "reliance" between its foreign trade and its financial administration. It is appropriate that we institute complete drawbacks for export commodities. According to the estimates of relevant departments, export product tax and value added tax constitute an average 16 percent of the total cost of exports. That is to say, if those taxes were completely withdrawn, the foreign exchange cost could be reduced by 16 percent. This in fact is even greater than the current degree of foreign exchange rate devaluation. If we provide various types of subsidies in the various processing links in the production of export products, then we would be able to resist the method used by other countries in levying "anti-subsidy taxes" and "anti-dumping taxes." This would enable our country to maintain a certain competitiveness, something which devaluation could not achieve.

5. We should establish a controlled foreign exchange market with foreign exchange-on-hand certificates as the axis.

At present, our nation was the system of enterprises retaining foreign exchange funds. The percentages are not small and likewise the amounts are not small. Thus, we should no longer adopt the method of progressive foreign exchange retention at different levels. At present, there exists the following two problems: The first is that the actual amounts of foreign exchange retained by enterprises is far less than that promised to them. The majority is intercepted and retained by provincial and prefectural departments. The other problem is that foreign exchange lacks the controls of market mechanism and funds lack avenues for lateral flow. Thus, the phenomena of lack of foreign exchange and fund precipitation exist together. The speed of actual use of foreign exchange is low (for example, the amount of foreign exchange really used by Qingdao each year is only about 20 percent of the amount approved for use). After implementing a system of foreign exchange exchange-on-hand certificates, the foreign exchange bank can directly issue an enterprise a foreign exchange-on-hand certificate in accordance with the proportion of foreign exchange to be retained by the enterprise. This will thoroughly eliminate the actions of administrative departments [words indistinct] the enterprises' profits. We should also allow the holders of the foreign exchange-on-hand certificates to transfer and sell their certificates at designated markets and at foreign exchange organs. The price of the foreign exchange-on-hand certificates can be completely determined by supply and demand. The government banks for handling foreign

exchange should also buy and sell these foreign exchange-on-hand certificates. The state should establish a foreign exchange levelling fund with which to intervene in the market to reduce the degree of deviation between these certificates and normal foreign exchange and to stabilize the foreign exchange rates. Thus, using the foreign exchange-on-hand certificates as the center, it will be possible to bring their role into play and they can act as a hub and draw the market mechanism into the foreign exchange market system. Through this window, it will also be possible to guide the determination of the actual exchange rate. However, what must be specially guarded against is the price differential for foreign exchange-on-hand certificates becoming too great. Otherwise, it may suggest double foreign exchange rates.

6. In foreign exchange management, direct control cannot be abandoned.

The "transfer and change" in foreign exchange management is a very long process. This is not only because the growth of our nation's strengths needs a very long time, but also because for a nation as vast as China, economic independence is extremely important. Thus, in foreign exchange management, abandoning direct controls and changing to indirect controls is not something which is appropriate at present. Actually in these developed countries which say that they have already implemented indirect controls, the direct controls are like a spectre pacing up and down. They have not been completely done away with. For our nation at present, direct controls still have a significance not easy to ignore. These controls include: implementing a system of permits for imports and exports; implementing direct controls over quantities; the banning of the illegal purchase and sale of foreign exchange; the suppression of the foreign exchange black markets and the safeguarding of Renminbi as the legal tender.

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FINANCE AND BANKING

LIAOWANG INTERVIEWS PRC CUSTOMS DIRECTOR

HK250751 Beijing LIAOWANG in Chinese No 23, 9 Jun 86 pp 14-15

[Article by Lin Hai [2651 3189] and Ge Xiangxian [5514 6272 6343]: "The PRC Customs Services the Policy of Enlivening the Domestic Economy and Opening to the Outside World--Dai Jie, Director of the General Administration of Customs, Answers LIAOWANG Reporter's Questions"]

[Text] Question: What are the main tasks, as far as customs work is concerned?

Answer: In the present new period of socialist construction, when the economic reform is proceeding at a steady pace and when we are enlivening the economy at home and opening up to the outside world, the main tasks of our country's customs can be summed up as: "Keeping watch and rendering services." "Keeping watch" means guarding the economic gate of the state and controlling goods and commodities entering or leaving the country as relevant laws and decrees stipulate. "Rendering services" calls for customs patterns, ways of managements and actual results being conducive to the realization of the party's main tasks and goals and serving socialist modernization. The specific duties of our country's customs boil down to the following: 1) Exercising control over all means of transportation, cargoes, gold and silver, monies, negotiable securities, luggage and effects, mail and other non-trade commodities, entering or leaving the country; 2) Collecting tariffs and others taxes; 3) Discovering smuggler and making arrests. Meanwhile, the customs is responsible for the compilation of customs statistics. In the past few years, with the introduction of the policy of opening to the outside world, and the rapid increase in economic exchanges at home and abroad, custorm work has become much richer in content than before. The volume of work has also greatly increased. On the one hand the objective situation has given a boost to customs work. On the other, more exacting demands have also been imposed on customs work. This requires the customs not only to facilitate entry and departure, but also to strengthen control. The aim is to stimulate and protect the building of socialist material and spiritual civilization.

Question: Please say something about the following: What reform measures have been taken in customs work in the past few years? What achievements have been scored?

Answer: The development of the customs undertaking in the past few years has been closely related to our country's policy of enlivening things and opening up. Without the policy of opening up, the customs undertaking could hardly have witnessed such a favorable situation today. The ever greater progress made in enlivening things and opening up has forced the customs to carry out reforms in various fields to meet the needs of the existing new situation. The first important policy about overall reform in customs was the State Council's decision on reform of the customs management system. To give full play to the supervision and management functions of the customs and strengthen centralized and unified leadership, the State Council decided in 1980 to bring the customs organizational system under central control, and let the General Administration of Customs exercise unified control over the staff and business matters of customs organs throughout the country. The customs management system reform has given an effective boost to reforming customs business and customs organizational construction, enabling customs work to enter a new development stage.

First, with regard to business matters, we made it clear that the customs must correctly and properly handle the relationship between paying strict attention to keeping watch, and the need to facilitate legitimate entry and departure and exercise control over import and export goods and commodities. This is to say that we must not only do a good job keeping watch but also do so in a rational and effective manner. In opening up to the outside world, we must allow goods to enter and leave quickly, and reduce the time spent at a port as much as possible. To this end, we must simplify port control procedures and strengthen subsequent control. The main measures taken have been: Narrowing the scope for inspecting import and export goods at the port; enlarging the scope for a customs transportation control system; introducing a method of combining emphasis on the selective examination of goods shipped by containerization with examination and verification based on relevant documents; introducing a system of tax-guarantee [bao-shui 0202 4451] warehouses and tax-guarantee factories for various kinds of tax-guaranteed import goods; introducing a system for registering import and export operating units, and training and assessing workers responsible for customs declaration; and conducting experiments by posting customs officials at warehouses and factories to carry out supervision. In line with the actual conditions of given areas, customs organs at various levels take measures to accommodate the owners of goods, such as by: Directly inspecting and clearing import and export goods on board ship; clearing, against the presentation of letters of guarantee, certain cargoes, which are not accompanied by complete sets of waybills for special reasons but which must be immediately taken delivery of and transported; the customs handling of customs declarations at import cargo transportation ports on a 24-hour basis, and so forth.

In handling incoming and outgoing travelers' luggage and effects, we have changed the previous practice of thoroughly checking and carefully inspecting everyone. We have experimented with the system calling for two passageways, one for those who have taxable items to declare and one for those who have nothing to declare (also known as the red and green passageways.) Luggage

and effects are subject to inspection with the use of proper instruments, and the system of selective inspection has been introduced. Emphasis is put on civilized inspection and on a courteous attitude toward others, with a fine customs style established. The scope for allowing duty-free imports for certain incoming and outgoing travelers has been widened. The tax exemption ceiling on incoming postal parcels has been raised. Second, we have made it clear that given the socialist commodity economy, full play should be given to the regulatory role of customs tariffs as one of the economic levers. In line with the policy of opening up, we should attract more foreign investment and foreign advanced technology to promote domestic projects that have been given priority support. In our approach to certain import goods, the customs has formulated a series of policies regarding preferential tariffs in line with such principles as dictated by different areas, different categories, the different nature of trading, the different sources of funds, and so forth.

The next important thing in the reform of taxation is to revise and implement new tariff rules and regulations and tax rules, perfect the legal system on tariffs, and reduce the average tax rates on import goods to a relatively large extent. In addition, we have started levying regulatory import taxes on some import goods. This is an effective measure in coordination with state readjustment of the domestic industrial structure and macro control over imports and exports. Apart from two main measures above, we have reversed the previous situation marked with "an overall assault but without substantial results achieved." We have focused investigation and action on large and important cases, especially the smuggling and illegal activities of enterprises and institutions. In statistical work, we have taken accuracy, speed and actively providing advice and information as our goals, thus giving full play to the role of customs statistics in serving and governing the national economy.

Simultaneously with the carrying out of reforms in business matters, we have speeded up organizational construction. In line with the needs of business development, we have increased the number of customs organs and added to the staff. We have readjusted the grading of customs organs and the relationships between those at higher and lower levels. We have readjusted leading groups and strengthened cadre training, enabling cadres to take a big step forward along the road of "four modernizations." All this has ensured the smooth development of various general and specific customs policies, and reform in business matters.

In the past few years, the customs has gone through reform and construction, achieving very obvious actual results. First, given a rapid increase in the volume of work and an ever complicated new situation, the customs has effectively undertaken management, tax collection, and other duties. Compared with 1979, the goods handled and cleared by the customs, the number of passengers entering and leaving the country through the customs, and the amount of collected tariffs and taxes obtained on behalf of others, registered increases of 90 percent, 370 percent, and more than 600 percent respectively.

in 1985. Second, strict watch is kept over the customs gate. Due to: Various economic factors in imports and exports; a variety of methods of operation and transportation; thriving smuggling activity along the south-eastern coast; and to the large numbers of people entering and leaving the country and their varied backgrounds, control over export and import commodities and goods was rendered much more difficult. With the support and cooperation of relevant departments, the customs adopted decisive measures and launched an anti-smuggling campaign. In 1985, the customs cracked more than 23,500 cases of smuggling involving nearly 710 million yuan, and seized 200,000 pieces of reactionary and pornographic printed matter. This was a relatively large increasing [word indistinct]. Third, entry and departure has been facilitated. For example, at customs offices involving a relatively large flow of incoming and outgoing travelers, the time taken with customs procedures for travelers has been reduced from 5 minutes to 1. This has been universally praised. With regard to control over cargo transportation, given a series of measures aimed at simplifying procedures and providing every facility, a positive effect has been produced in speeding up the circulation of goods at port, stimulating the process of providing port space, and making it easier for recipients, senders and consumers.

Question: Please say something about the kind of work the General Administration of Customs has done training modern customs officials?

Answer: To bring customs work in line with the needs of the developing national economic situation, we have defined the customs guidelines for education and training as a matter of serving the building of a force of customs cadres, serving the construction effort in customs business matters, and serving the building of two civilizations in the customs field. In training skilled personnel, basing ourselves on the features of customs work, we first worked out a relatively rational program on the political makeup of customs cadres and the mix of knowledge and competence. Based on the trends in the development of customs work, we forecast the ratio between the increase in the number of customs cadres and the mix of cultural and specialized knowledge, and formulated a general plan for customs education and training at various levels. After efforts during the Sixth 5-Year Plan period, we basically formed a system of customs education at various levels for post-graduates, students in the relevant and in specialized fields, and secondary technical school students, and also a network to provide continued education for cadres combining on and off the job training, combining training within the system and outside the system, and combining training at home and abroad. At present, the customs has more than a dozen education and training bases throughout the country. In foreign economic relations and trade colleges, customs management departments have been set up. These are chiefly responsible for the training postgraduates in the specialized customs field, students in the relevant field, and other high-level customs management personnel. The Shanghai Customs College, the cadres schools for PRC customs management established in Guangzhou and on Qinhuang Island during the past two years, secondary customs schools, and other schools, are chiefly responsible for the training of middle-level and junior management personnel

of college and secondary vocational school standard. In addition, through cadres' secondary vocational schools and education and training centers, we have joined given areas in holding joint customs vocational classes. We have entrusted relevant colleges and schools with the business of running customs inspection, tax assessment and collection, and auditing classes. We have also selectively sent the vocational backbone to developed countries and various colleges and institutes of higher learning at home, for study and training. In the period from 1980 to 1985, the PRC customs had subjected leading cadres at and above the sectional level to a period of fundamental training, and given 6,000 new customs officials 6 months training prior to their assumption of relevant duties. After several years of effort, the cultural and vocational standards of the ranks of customs cadres have shown obvious improvement. The percentage of cadres with a cultural standard at or above college or institution of higher learning level rose from 11 percent in 1980 to 23 percent in 1985. Refresher junior and higher middle school cultural courses have been provided for 3,000 cadres. Of the ranks of cadres, those with cultural standards at and above the higher middle school level account for 90 percent at present. During the period of the Seventh 5-Year Plan, we will devote ourselves to improving the quality of education and training and will pay particular attention to the training of cadres in the political and vocational fields. This is in an effort to create a new force of customs cadres with ideals, moral consciousness, cultural standards, and a sense of discipline suited to the needs of customs work.

Question: To enable the PRC Customs to meet the demands of modernization, what measures will be taken in future?

Answer: The reform of customs work will at all times focus on "keeping watch and rendering services" as its center. After several years of practice, the guiding principle for future customs work calls for putting emphasis on stimulating economic relations, trade, scientific, technical, and cultural exchanges with foreign countries, and the activity of making contact with foreign countries in a shift of emphasis from watchfulness to stimulation. We must continue doing a good job of reform and consolidating the results already achieved. We must direct efforts toward perfection in linking things up. We must focus on accelerating "construction in three fields." These are, the customs legal system, the spiritual civilization of the ranks of customs cadres, and the overall modernization of customs management.

This year, we are prepared to take the revision and implementation of "customs law" as the central effort and, in a planned manner, revise or work out various ways of control, putting customs laws and regulations on a systematic basis gradually. On such a basis, we must do a good job in studying, disseminating and implementing customs laws and regulations.

The building of spiritual civilization in the ranks of customs cadres is another important task facing us. Early this year, we held a national customs ideological and political work conference calling for an effort to bring about a fundamental turn for the better in party style and in customs practices

this year. In line with the central demand, we will also carry out inspection and reorganization to get rid of activities that run foul of law and discipline and any acts of abuse of authority. Meanwhile, we hope that through realistic and effective education on the fundamental principles, and education on ideals and discipline, the customs officials will universally foster a concept of "winning honor for the state and being responsible to the people" and further promote such vocational and moral practices as being dedicated to the job, enforcing laws impartially, being attentive to civilization, carrying oneself with dignity, performing one's duties honestly, and strictly observing law and discipline. They must project a lofty image of the PRC Customs at home and abroad.

To bring customs work in line with the demands of modernization, we must also introduce scientific management covering various customs management systems, regulations, and technical facilities. With regard to the system of management, we must put emphasis on strengthening follow-up control over import and export goods, further simplify inspection procedures concerning travelers' luggage, effects, and personal mail, and perfect the tariff system. Speaking of technical facilities, we must pay proper attention to research, manufacture, importation, and application concerning the art of using computers and communication skills, and the art of inspecting goods entering and leaving the country. Through these efforts, we will try to turn the PRC Customs into a civilized and highly efficient state organ exercising supervision and control over imports and exports.

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FINANCE AND BANKING

TAX EVASION IN NINGXIA REPORTED, CALLED SERIOUS

Yinchuan NINGXIA RIBAO in Chinese 25 Sep 85 p 2

[Report by Qi Yanbin [4359 1750 2430]: "Tax Evasion by Certain Units and Individuals in Our Region Is Serious"]

[Text] During tax inspection in our region, it was discovered that the problem of tax-paying units and individuals in certain areas seeking to take advantage of loopholes in the reform of our economic structure and violating state taxation policies and decrees in their attempt to pay less or evade taxes is serious.

According to available statistics, from January through July the region's various departments have inspected 7,322 households of tax-paying units and individuals; among those found with such tax evasion behavior amounted to 4,383 households, making up 60 percent of the inspected households, and the tax payments thus evaded amounted to more than 130,000 yuan. The Shizuishan tax bureau, through its inspection of 6 companies, revealed more than 130,000 yuan of taxes evaded. The tax bureau of Yinnan Administrative Office organized needed manpower to carry out inspection of 24 enterprises in Qingtong Municipality, with each and every household found to be problematic, and the amount of evaded taxes totalling 100,000 yuan. The tax bureau of the new urban center of Yinchuan Municipality carried out inspection of 50 individual households and found 49 of them to have engaged in tax evasion.

The above-mentioned units and individuals, for the sake of tax-evasion, could not care less about selecting more palatable means; their evasion turned out in various forms and shapes which, if summarized, roughly include: 1. Keeping their income secret; certain tax-paying units and individuals refrain from entering their earnings into their accounts, purposely entering them under payment-and-expenditure items, or creating false items so as to deceive the tax organs or collecting personnel. 2. Juggling and listing at random their expenses in order to have them take the place of costs. Among their concrete manifestations, these include the case of raising the proportions of various special funds, the case of issuing awards, subsidies and goods indiscriminately, the case of entertaining guests and presenting gifts, the case of extravagant spending and waste. the case of elevating the standards for various expenditures, the case of assigning contributions at random, etc., etc. 3. Reporting false situations in order to get reduction or exemption in

taxes by deception. For instance, there are 87 companies of various titles in Shizuishan Municipality; some of them report false situations in the name of a collective enterprise or intellectual-youth enterprise so as to get a tax reduction or exemption by deception. 4. Account entries being untrue, so that there is no basis for taxation. Individual households would keep no account entries; they would have incomplete invoices for purchased goods, thus making it impossible to verify and tax them and hence to meet the requirement of their making full tax payments. In the case of certain individual households, several or even several tens of persons would do business, and they would also fail to keep accounts and resort to paying less or no taxes. According to an investigation of 150 enterprises collectively managed by individuals in Yinchuan Municipality, those whose account entries are found to be incomplete or false make up more than 85 percent. 5. Certain tax-paying units and individuals seek to take advantage of the current loopholes of the tax departments lacking sufficient personnel, falling short in their operational quality, handling excessive volumes of business, and lacking carefulness and strictness in their tax collection and management, so as to refrain for a long time after they have opened their business from reporting and paying their taxes. 6. Offering bribes and drawing others to their side or looking for a protective umbrella.

On the basis of a preliminary inspection, the tax departments have proceeded to dispose the problems thus discovered. Up to the end of July, the region has found 3.67 million yuan of evaded tax payments. During this nationwide financial and tax inspection, of those among the tax evasion cases whose situation are found to be serious, some units and individuals are given disciplinary punishment; those whose cases ran counter to the penal code are turned over to the judicial departments to be handled according to law.

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FINANCE AND BANKING

PAPER STUDIES ENTERPRISES SHARES SYSTEM

HK240539 Beijing JINGJI CANKAO in Chinese 2 Jun 86 p 2

[Article by Gu Tiefeng [7357 6993 7364]: "Implementing a Shares System To Restore the Original Features of Collective Enterprises--Discussion on Theory and Practice of an Enterprise Shares System (Part One)"]

[Text] From 13 to 16 May, the administrative bureau of machine building industry of Shenyang City held a theoretical discussion on the enterprise shares system. Some 200 experts, scholars and economic workers from various parts of the country explored and studied the problem of the enterprise shares system on the basis of combining theories with practice.

Participating experts and scholars maintained that the implementation of a shares system would restore the character, original features and appearance of the collective enterprises.

The work of implementing a shares system by the administrative bureau of machine building industry of Shenyang City was started in the Shenyang miniature compressor plant and the Shenyang compressor valve plant. Collective enterprises were originally economic organizations run by laborers who jointly raised funds, owned the means of production, worked together, and employed a method of distribution according to work and shares. However, with "leftist" ideology and dogmatism running wild, the form of such organizations was sabotaged. As a result, the line of demarcation between ownership by the whole people and collective ownership became obscured. The sense of responsibility of staff members and workers as the masters of their own enterprises became blunted.

Shenyang miniature compressor plant and Shenyang compressor valve plant have drawn a profound lesson in this regard.

Shenyang miniature compressor plant was officially established in 1962. Its predecessor was a cooperative production group run by shareholders who were responsible for the profit and loss of the group. The only old-fashioned belt-driven lathe was bought by money paid for shares. Tools needed in production were brought from home by shareholders. Although production conditions were simple and crude, and very often workers' wages could not be

paid on schedule, the workers never thought of dissolving the On the contrary, they united closely, and everyone suggested ways and means by which the production group could survive. When the plant was officially established, wages for workers could be paid regularly. In addition, the plant bought facilities and equipment, and paid business tax and profit tax to the state. However, due to the influence of the "leftist" ideology of "larger in size and having a higher degree of public ownership," some people thought that the higher degree of public ownership the better. The enterprise was gradually turned from a production group, into a cooperative which belonged to a neighborhood committee, into a small collective unit which belonged to a district, and finally into a big collective unit which belonged to the city. Staff members and workers gradually depended on the state, successively drew back their individual shares, and gave up their ownership power over the enterprise assets. Staff members and workers no longer cared about enterprise business and development of collective enterprise was severely hampered.

In the reform process over the past two years, the administrative bureau of machine building industry in Shenyang City was realized that a complete reform of the ownership system is a fundamental way of overcoming the various defects of collective enterprises. Efforts should be made to restore the character and original features of the collective enterprises so that production relations will be in accord with the development level of productive forces. Besides, the administration of collective enterprises based on state-operated patterns should also be changed. The ownership structure inside enterprises should be reformed, and administration based on a shares system should be set up. In June last year, the bureau gained initial experience on a trial basis. In March this year, the experiment was expanded to 19 collective enterprises, and a small enterprise under ownership by the whole people, which was administered according to the requirements of a collective enterprise. A better result was achieved in this regard.

Profound changes have taken place in the short period of less than one year, in the two collective enterprises which have implemented a shares system since June last year, with regard to their business management and the mental outlook of their staff members and workers. 1) The character and original features of collective enterprises have been restored so that the form of collective ownership is in accord with the present level of development of the productive forces. Productive forces have thus been liberated. 2) Since the implementation of the shares system, staff members and workers have truly become the masters of their enterprises. This has given play to their enthusiasm and creativity. Staff members and workers are owners of the assets of the enterprises. In the meantime, they are also operators, laborers and beneficiaries. The interests of staff members and workers are closely integrated with those of the enterprises. When enterprises feel proud of their success, so do their staff members and workers. When enterprises suffer losses, so do their staff members and workers. Therefore, the sense of responsibility of staff members and workers as master of their own enterprises has been strengthened. They show extensive concern for the production and business management of their enterprises. 3) Due to the fact that staff members and workers have become shareholders, enterprises may turn

their idle consumption funds into production funds to solve the difficulties of the enterprise's insufficient funds. 4) Generally speaking, staff members and workers are shareholders for life. They should carry out the commitments of running their enterprises. They will take a risk in this respect. Therefore, they should double their efforts to pay attention to their enterprise's prospects and the growth of their assets. This will overcome the tendency for enterprise to seek only partial and short-term interests.

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FINANCE AND BANKING

JOURNAL DISCUSSES CIRCULATION OF FUNDS

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[Article by Yin Jieyan [3009 0094 3508] and Wang Xiyi [3769 0823 5030] of the People's Bank of China: "Resolving the Contradictions of Supply and Demand of Circulation Funds and Supporting the Steady Growth of National Economy"]

[Text] At present, an outstanding problem is the rather big contradictions of supply and demand of circulation funds. It needs to be properly resolved in the course of readjusting the economic structure and putting the economic relations in order, thereby facilitating smooth and rapid development of the national economy.

In 1985, the growth rate of bank loans for circulation funds surpassed that of the economy, and was more than double that arranged for under the state plan. It actually exceeded the amount of increase of loans in 1984 when credits and loans got out of control. Why were the contradictions of supply and demand of circulation funds so enormous? The principal causes were: 1) Quick growth of the economy; it exceeded the plan by a big margin and, as a result, the demand volume for funds increased. The growth rate was fast, but the supply of raw materials was insufficient. Certain materials and parts had to be imported. This caused an increase in the use of foreign exchange and in foreign exchange loans and the amount of renminbi required in coordination was correspondingly increased; due to the acute supply in raw materials, the prices of the means of production rose following their entry into the market, and with the readjustment of the structure of commodity prices, the stock of commodity materials increased in value; hence the amount of loans was increased. 2) The enterprises were unable to replenish their circulation funds. In the past, each year the budget provided for several billion yuan of circulation funds for use on simple reproduction. From 1953 to 1985 the state appropriations for circulation funds arranged for by the Ministry of Finance averaged 6.3 percent a year of the budget expenditures. Following adoption in 1985 of the measure of assigning circulation funds wholly to the charge of the banks, the state budget seldom made any provisions for such funds and, in reality, management of these funds by the banks was changed into the banks guaranteeing the circulation funds. As a result, the proportion of the accumulation of fixed assets rose while the proportion of circulation assets dropped. In the past, the ratio of

circulation assets in the accumulations was in general 30 percent, but in 1985 it dropped to an average of only 16 percent. Thus, while the older state-run enterprises expanded their production and circulation, their circulation funds could not be replenished and their ratio fell each year; as for the newly established enterprises, at the time of making the arrangements for their capital construction investments, no provision had been made for circulation funds for use following their entry into production; hence, all the circulation funds needed had to depend on bank loans. On the part of the enterprises under the system of collective ownership, their accumulations were mostly used on expanded reproduction and the circulation funds needed had wholly to depend on bank loans. At the same time, due to the large scale of the fixed asset investments, on the one hand, the circulation funds were edged out or used for other purposes, and on the other hand, units which had their production capacity newly consummated also required the use of circulation funds and consequently the demand for them was expanded. All this aggravated the tense state of the circulation funds.

3) Poor economic effects from the use of funds. The products of some enterprises had poor marketability and had to be stockpiled for a prolonged period and there was a large proportion of loans which had become due or had passed their expiry date. Fund precipitation was great and the turnover of funds was difficult. According to statistics, in the whole country, irrational loans amounted to over 10 percent of all the loans. 4) In recent years, of the increased volume of bank loans, nearly one-third consisted of loans for fixed assets. In addition, the enterprises had insufficient self-owned funds and a fixed amount of the assets had to depend on bank loans for a prolonged period. Moreover, the funds for certain material reserves such as grain and cotton which originally had to be provided by the Ministry of Finance also had to be financed by bank loans, thereby causing the use of credit and loan funds for long-term loans to far surpass the sources of long-term funds and a large volume of funds of a short-term nature to be used for a long-term purpose. All this caused a portion of the credit and loan funds to stagnate. 5) Inflexibility of the employment and transfer of funds. The vertical distribution of funds of individual banks was not suited to the lateral economic relations. Between the banks and between the regions, the loan targets among the loan projects were more or less imprisoned in fixed spots and funds generally stagnated in the local ties. It frequently happened that whereas one side had plentiful bank deposits the other side was experiencing an acute shortage of funds. In short, the amount of limited funds available could not be put to full use.

The above-mentioned problems existed some 2 years ago. At a time when the management of credit and loan funds tended to be lax and under the conditions of "everybody eating from the same big pot" in the use of funds, the contradictions in the supply and demand of funds were not at all obvious or outstanding. Following the stress on economic effects, particularly last year when macroeconomic control was strengthened, the money market was tightened, and issuance of banknotes came under strict control, the problems became obvious. At present, various sides are feeling the impact of the shortage of circulation funds. They approached the banks and the upper-levels for help but neglected the potentials of funds in their own

departments, or regions, or units and lacked an effective measure for resolving the problem. Meanwhile, they have continued to invest their main funds on, and to attach importance to, investments in fixed assets. By so doing, the larger the scale of investments, the greater is the production capacity formed, the larger is the volume of circulation funds needed and the more acute becomes the situation of the circulation funds. Hence, at present, resolution of the contradictions in supply and demand of circulation funds requires an overall survey of the whole situation, taking the whole of society into consideration and resorting to comprehensive measures.

1. Increasing the accumulation of circulation funds, so as basically to resolve the tense situation in the supply and demand of circulation funds. There is both accumulation of fixed assets and accumulation of circulation assets. The production capacity formed by the first kind of accumulation must be correspondingly coordinated by the latter kind of accumulation before it can display its role and before materials wealth can be created. Without the latter kind of accumulation or with it, but not in coordination, or in full or in a suitable state, then the maladjustment between the two will be aggravated and even enormous wastes and losses may be caused to society. In order to increase the accumulation of circulation assets, first it is necessary to make provisions in the state budget and in the financial budgets at various levels and the circulation funds of all the subordinate enterprises must be separately arranged for. The amounts to be arranged for must be in accordance with the economic growth rate of the state or the other regions. In the event of the arrangements not having been made according to the prescribed proportion, the banks should correspondingly reduce the amount of the loans so as to display their restrictive functions. Second, from the preceding year's balances in the current financial accounts of the localities, an adequate portion should be set aside for granting of loans for circulation funds, or, the banks may be entrusted to grant loans to the enterprises, without changing the ownership right of the funds and with the interest receipts belonging to local finance. Third, in the course of the readjustment of the structure of commodity prices, the portion of the value increment of the commodities should not be treated as fiscal revenue, but should be used to supplement the self-owned circulation fund of the enterprises. If it should be treated as fiscal revenue and allowed to be used in expenditure, then bank loans would be edged out. And if this portion of expenditure should be for investment in fixed assets, the demand for circulation funds would be expanded, and a vicious cycle would be formed. Fourth, there must be a readjustment of the loan structure. In the reform in recent years, bank loans have so expanded as to enter the realm of fixed asset investments and good results have been achieved. But this means exceeding the sources of the bank's long-term funds. In particular, certain loans have designated a repayment period of several decades. This naturally has caused difficulties to the banks in the turnover of funds. Up to the end of this year, bank loans for fixed asset investments will occupy one-sixth of the total volume of loans. Of them, loans for capital construction will make up one-third of the fixed asset loans. An excessive use of the long-term funds of banks will elbow out loans for short-term circulation

funds. Such a situation should be rectified. A rational adjustment should be made consistent with the capacity of the credit and loan funds. Fifth, in arranging for the capital construction investments, arrangements should also be made for circulation funds, so as to ensure that speedy results are attained following the completion and going into production of the projects concerned. Newly-built project and expanded projects that have been completed should be made to put their production capacity into full play, to speedily turn out products and to produce effects. In the event that due to failure to provide the needed circulation funds resulting in adversely affecting the projects' starting or going into production, the banks should, by means of the floating of financial debentures, help to raise the funds to replenish the portion that should have been arranged for by the enterprises or projects themselves, and follow up with granting special loans to the enterprises or projects at a high interest rate. The enterprises or projects should repay the loans from the before-tax profits, and replenish their self-owned circulation funds to gradually reach the prescribed ratio. Sixth, the enterprises should, from their after-tax profit retentions, earmark a fixed amount of funds to be put into the circulation fund accumulations. Past experiences have shown that a rational level for circulation fund accumulations should be in the neighbourhood of 30 percent. The various localities should make the replenishments gradually and in accordance with their respective conditions. Therefore, we must solve the problem of there being small after-tax retentions and insufficient funds on the part of the enterprises, particularly certain large and medium-sized enterprises: at the same time, we must rectify the condition of collective enterprises watching only fixed asset accumulations and depending solely on bank loans for circulation funds. From now on, wherever it is found that certain enterprises do not have the prescribed ratio of self-owned circulation funds, the banks should correspondingly reduce their loans to them and levy interest surcharges on the loans that have already been made. This will help to persuade the enterprises to arrange for their self-owned circulation funds.

2. Making all-out efforts to increase the volume of deposits, so as to enlarge the source of credit and loan funds. In recent years, following the reform of the economic structure, development of the economy, and improvement of the standard of living of the people, the channels of national income have changed, and there has been an increase in the funds of the society. Residents in the urban and rural areas have more money in their hand. In their work, banks should consider the whole society, organize these various portions of funds, bring about an increase in bank deposits and tap the potentials of social funds. By so doing, it will be possible to gather together the small amounts of scattered funds and convert them into a centralized, huge and strong financial power. Moreover, it will be possible to forestall or delay a portion of the social purchasing power, convert the consumption fund into production fund and provide a safe source for credit and loan funds. In organizing funds, first, we can, by means of the system of savings deposits, absorb the deposits of individuals. Hence, it is necessary to increase the number of collection points of the savings network, and adopt and extend the use of new technologies such as use of electronic computers for the convenience of the depositors so that they will not have

to queue up when making deposits. We may also adopt appropriate contract forms, link together the economic interests of the deposits business with the economic interests of the staff members of the savings establishments, and effect the integration of responsibility, power, and benefit, thus arousing the enthusiasm for organizing the deposits business on the part of the staff members of the savings establishments. In public organs, plants, mines and enterprise units, agency services for the savings business should be extensively developed. Fixed agency fees should be given and a social promotional force for savings should be engendered. Savings departments should create the conditions for actively performing the job of acting as agents in issuing pay checks, collecting water and electricity charges, and so forth, thus helping to speed up the return flow of funds. New savings channels should be opened up and the postal savings business should be developed. In busy business districts the number of savings network stations should be increased. If there are difficulties in so doing, the banks should work together with large stores, or factories, mines, and enterprises to jointly engage in the savings promotional business, making use of their facilities to set up network points. Another measure is to widen the credit form, and, through the issuance of financial debentures and share certificates, direct merging of funds should be carried out. By so doing, on the one hand, it will be possible to increase the amount of available funds and, on the other hand, the investors can closely watch the investment results which [word indistinct] their intimate interests. Still another measure is to develop the insurance business and set up an economical insurance compensation system, thus enlarging the source of funds and helping production to find funds for its needs.

3. Taping the hidden potentials of funds and enhancing the economic effects of the use of funds. Starting from banks and enterprises and ending up with entire society, it is necessary to set up the concept of speeding up the turnover of funds and that of seeking economic effects and to tap the potentials of funds from raising the economic effects of the use of funds. First, various regions and various trades and industries should all advocate targets for speeding up the turnover of funds, lower the level of the use and employment of funds and should adopt the necessary measures for their fulfillment. Second, it is necessary to determine the correct direction of the use of funds. In line with the state's macroeconomic policy of developing the economy, we must differentiate between the different conditions of important or non-important and urgent and non-urgent issues and of good or poor economic effects and accordingly grant differential treatment to various projects, granting loans only to the best ones. Priority should be given to enterprises in the energy, communications and transport, and raw materials sectors in supporting their development. Support should likewise be extended to tertiary industry, to production of marketable everyday consumer, to the production and purchasing activities of enterprises which have foreign exchange earnings, to the development of agriculture and to ensuring meeting the needs for funds for purchasing agricultural and sideline products designated in the budget. As for extra-budget purchases of agricultural and sideline products which are marketable and conform with

state's price policy, appropriate support should be given subject to the condition of the availability of funds. Third, material resources and funds must both be invigorated. The various departments concerned must exert efforts, in a planned manner and within a prescribed period, to complete the tasks of liquidating and handling stockpiled material resources, revitalize them, and truly make use of this category of social wealth, thus enlivening a portion of the funds. Simultaneously, the banks should tightly grasp the recall and recovery of loans that have expired or have passed their expiry date, and should also liquidate those bank loans arising from the irrational use of circulation funds. Fourth, the banks should categorically decline granting any loans to enterprises which have simultaneously continued production and accumulated losses in operation or which have incurred losses of a policy nature without any source of funds for compensating the losses, or enterprises which have failed to revert to profit making even after a designated period. To grant loans to this category of enterprises would only preclude loans to enterprises for proper uses and cause a waste of social funds. For the purposes of truly restricting the use of the limited amount of funds to production, it should not be permissible to employ circulation funds for capital construction purposes, or for participation in investment, or compensating losses, or delivery to the state of profits not yet realized. Offenders should be punished by measures such as the bank recalling the original loan for circulation funds or charging surplus interest, according to the regulations, on the loans.

4. Performing a good job in the merging of funds and speeding up the turnover of funds. By so doing, it will be possible to make one penny serve the purposes of several pennies. At present, certain localities can still be found in which while their specialized banks have plentiful deposits, a state of acute shortage of funds is still proclaimed. This is principally due to the funds not having been merged well, or flexibly regulated or put to active use. In these localities, in the use of funds objective disparities in various aspects are found, such as in the time element, in locality, or in projects. Frequently, conditions are found such as one sector being rich in funds while the other sector is extremely short of funds, or one sector enjoying an increase in funds while another sector suffers from a decrease, or in one sector funds are being put to extensive uses whereas in another sector the funds have remained idle. This will require the banks to actively exploit their role of regulating and merging funds and guiding the direction of the flow of funds between the various localities and the various departments, between the various banks and the various projects, and between renminbi and foreign exchange, and thus to put a portion of the stagnated funds into circulation again. In the process of merging the funds, importance should be attached to promoting the appearance of lateral economic liaison, that is to say, the banks should, by means of merging the funds, support the development of certain economic joint bodies which reach across localities, trades and industries and departments.

In current economic life, it is common for enterprises to loan each other funds. Certain enterprises have experienced the difficulty of not being able to promptly obtain repayment of loans that are already due. In a locality,

if it happens that a specialized bank fails to obtain payment of its receivable accounts, then the structure of the offsetting of accounts between banks may be disrupted and the turnover of funds may also be badly disrupted. Against a condition of this kind, on the one hand, it is necessary to strictly enforce the system of closing or clearing of accounts and to actively liquidate all defaulted accounts and, on the other hand, we may try out the system of the cashing or discounting of commercial bills and have the central bank provide a sum of money to help the enterprises to settle the outstanding accounts between them.

In order to do a good job in merging funds, various banks should perform their financial services well. At the moment, the forms of commodity exchange are many and diversified, the methods employed are flexible, and not only is the volume of exchange large but also the scale and scope are wide. Some people with "piles of money girdled around their waist" may attempt to carry out transactions in cash, but this is highly unsafe and unsound. This requires that the means for settlement of accounts and credit circulation offered by the banks should be in diversified forms and be flexible, convenient, and fast. The banks should indeed improve their settlement system and increase the credit tools so as to serve the purposes of speeding up circulation and invigorating production.

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MINERAL RESOURCES

NEI MONGGOL GOLD PRODUCTION REPORTED

Hohhot NEIMENGGU RIBAO in Chinese 17 Aug 85 p 1

[Text] The gold production system in our region, by adhering to the reform of our enterprises and earnestly grasping technical transformation, has achieved new results in gold production this year. According to statistics provided by the gold company, cumulatively from January through July this year already 43,450 liang of gold have been produced, with 65.8 percent of the year's plan thus fulfilled, representing 7.6 percent increase over those during the corresponding period last year. It is estimated that 80,000 liang of gold will be produced this year.

Since last year, state-run gold mines in the autonomous region have generally carried out delegation of authority, reforms and contract work and proceeded to dissect economic and technical targets and undertake contract work by shifts and groups in individual mining pits and workshops and thereby further mobilized the enthusiasm in production of the vast ranks of staff and workers. The production of our 24 state-run mines during the first half of this year has in general increased by more than 20 percent over that of the corresponding period last year. The production momentum in the two banners (counties) that produce 10,000 liang of gold and above have been steadily good; some mines have already fulfilled production tasks of the whole year 5 months ahead of schedule. All mines are paying attention to renovating their technology, changing their technological process, thus considerably reducing their exhaustion and damage rate, and improving their recovery rate. While closely grasping production, the principal mines at the same time have reinforced their geological ore exploration, increased their backup reserves, and ensured the continued increase in their production.

During such gold production operations the various localities, in accordance with the spirit of "opening the gate in the case of the small mines, and letting out quickly when water cumulates," have also actively organized and mobilized townships and towns to run collective and combined-households mining depots and mobilize the masses in an organized manner so as to have them do their best in unearthing the gold ores. This year, the Karaxin Banner alone has set up 21 collective mining depots, with nearly 1,000 gold-digging masses. Nei Monggol is vast in area with its resources scattered in extensive regions and at numerous spots; the gold deposits here are considerable. In order to strive for the realization of quadrupling our gold production by 1987, the state and the region have already invested 15 million yuan to create, expand and transform 6 mining projects; with these capital construction works completed, our production this year will increase by 10,000 liang.

LABOR AND WAGES

6TH 5-YEAR PLAN EMPLOYMENT FIGURES REPORTED

Changchun JILIN RIBAO in Chinese 22 Sep 85 p 4

[Text] New data provided by the State Statistics Bureau and other concerned departments illustrate that during the 6th 5-Year Plan the labor forces in the country's cities and towns had grown conspicuously and become an important indicator of the continued development of our social productive forces.

From 1981 to the end of 1984, newly employed personnel in the country's cities and towns numbered 28.35 million; it is estimated that 7.45 million more will be placed this year. This way, the personnel newly placed in employment during the 6th 5-Year Plan period would expect to reach 35.8 million.

Because of the energetic development of our collective economies and adequate development of our individual economies, avenues for employment have increased and new changes have also emerged in our employment structure. From 1981 to the end of 1985, the numbers of staff and workers in the country's units under collective ownership and of individual laborers according to estimates are going to increase 36.1 percent and nearly 5 times respectively. Among the social laborers of all cities and towns, the proportion of staff and workers of the collective units is going to rise from 23 to nearly 26 percent, and that of individual laborers, from 0.8 to 3.8 percent.

Employed personnel in light and textile industries, especially the labor-intensive type of trades and tertiary industries, have increased by great numbers; this is another salient change in our employment structure. Employed personnel in the tertiary industries of the country's cities and towns are according to estimates expected to reach by the end of this year more than 52 million, an increase of 29 percent over those of 1980; among these, employed personnel in the commercial and food industries and service industries exceed 10 million, an increase of more than 40 percent.

While changing the employment structure the employed personnel at the same time have also undergone changes in their own structure and quality. Among the newly employed personnel during the 6th 5-Year Plan period, university, secondary college and technical school graduates have increased by large numbers, numbering almost 4.8 million.

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LABOR AND WAGES

BAN YUE TAN DISCUSSES LABOR CONTRACT SYSTEM

HK261550 Beijing BAN YUE TAN in Chinese No 11, 10 Jun 86 pp 14-17

[Article by Wang Jianxin [3769 1696 2450]: "A Talk on the Labor Contract System"]

[Text] Editor's note: The reform of the employment system is a major reform of the existing labor system. This reform will help in eliminating such defects in the existing employment system as giving too many benefits to workers, exercising too rigid control, being able to get in but not out and being assigned to a job for life, and will help to arouse the broad masses of workers' sense of duty as masters of the house and their enthusiasm for production, further improving enterprise management, strengthening labor discipline, raising the quality of workers, strengthening enterprise vitality and stimulating the development of production. Since 1980, some areas of our country have started reforming the employment system, experimenting with the labor contract system. This magazine has asked Comrade Wang Jianxin of the Work Force Planning Bureau of the Ministry of Labor and Personnel to write an article about the need for a labor contract system in light of conditions about experiments. [End Editor's note]

A major reform in our employment system involving the labor contract system has been tried out in provinces, municipalities, and autonomous regions throughout the country. Experience shows that the introduction of the labor contract system helps in doing away with the defect of "an iron rice bowl," improving the quality of the ranks of workers and strengthening enterprise vitality; helps in allowing enterprises and workers to make mutual choices under given conditions; and helps in gradually bringing about social control of labor to meet the needs of the development of a planned commodity economy.

Our enterprise employment system has undergone a complicated and tortuous process of change. Shortly after the founding of the PRC, to solve the serious problem of unemployment left over from the old society, stabilize the political situation, and revive the national economy, quickly, the policy of "taking care of things" was applied to enterprises of bureaucrat capital and the Kuomintang administrative and military personnel. Later, the scope for "taking care of things" was gradually enlarged. Every laborer beginning

work in towns and townships was assigned work by the state in a unified manner, with a fixed work system adopted. Thus, workers were encouraged to concentrate on their work, the irrational circulation of laborers was avoided, and social order was stabilized. But with the fixed work system linked with egalitarianism in the distribution of wages, and with the "iron rice bowl" linked up with the practice of "eating from the same big pot" a series of defects arose:

1. Workers' enthusiasm to get ahead was dampened. With the fixed work system introduced, no matter what the labor attitude of a worker and whether he was competent for the job, he could hold on to the "iron rice bowl." This contributed to laziness and a dependent attitude on the part of some people and to lax labor discipline. Now, even after the reorganization of our enterprises, this situation still exists in many units, to different degrees. One of the main reasons is that apart from the absence of effective ideological and political work, the fixed work system is introduced with no distinction between good and bad performers, with everything taken care of.

2. Workers' freedom to make a rational choice of work was restricted, thus preventing them from fully using their respective talents in socialist construction. Under the fixed work system, a worker was usually assigned to a job held for life. Even if it had nothing to do with what he had learned or what he had specialized in, he had to reconcile to it. This had a very unfavorable effect on our encouraging workers to study technical matters and develop their talents, and interfered with the improvement of the quality of the ranks of workers.

3. This cannot help in improving operations and management and raising labor productivity. Under the fixed work system, a person that an enterprise needed could not get in and a person that it did not want could not go. It was difficult to make rational arrangements in line with production needs and to make economical use of labor. At present, while many enterprises have a relatively large number of extra personnel, there is still a shortage of skilled personnel on the first line of production. The composition of laborers in the first, second, and third lines is irrational. One of the reasons is that workers cannot rationally circulate within the whole scope of society under the system of ownership followed by labor departments and enterprises in line with the fixed work system.

4. The development of a wide market to stimulate labor employment was hampered. Under the fixed work system, people thought that being permanent workers, they were the "lucky ones." This caused people waiting for employment to pin their hopes on the state. The initiative or enthusiasm of various segments of society to provide employment opportunities was also suppressed. This was not conducive to the implementation of the "three-in-one combination" labor employment guideline and interfered with the development of the collective economy and the individual economy.

The fixed work system has become unsuited for the needs of our country's social and economic development and must be changed.

The labor contract system is an employment system that calls for using a legal form like the labor contract to establish and readjust the relations of labor between enterprises and workers. This system requires an enterprise to make a labor contract based on mutually agreed principles in recruiting workers.

A labor contract generally provides for the following: The duties assumed by a worker, the duration of a contract, labor conditions, pay plus insurance and welfare benefits, labor discipline with rewards and penalties, conditions for altering and nullifying a contract, the responsibilities assumed for a breach of contract, and other matters to be laid down, as considered necessary by both sides. The duration of a contract may be long or short, as agreed upon by an enterprise with a worker himself in light of its production (work) needs. At the expiration of a contract, both sides may sign a new one, as dictated by continued production (work) needs. Once a labor contract is signed, both sides are bound by it and must strictly follow it. From this, it can be seen that as a new employment system, the labor contract system gives better expression to the combination of economic means, legal means and administrative means and the unification of duties, rights and economic interests. This helps in maintaining the stability of the ranks of workers and can also stimulate the proper circulation of workers. All these show that the labor contract system is an improvement on the fixed work system, with the latter's strong points developed and its defects discarded.

Like permanent workers, the workers recruited by an enterprise under the labor contract system are its masters enjoying the same political rights and participating in enterprise democratic management. Workers under the contract system who make special contributions should be awarded political honors and given material incentives, according to state stipulations.

The orientation of the labor contract system is in line with the main goal in our economic reform and is an objective demand posed by our social and economic development.

First, the labor contract system is compatible with the character of social mass production. In social mass production, given the increasingly short period of upgrading for new techniques, new technologies, and new equipment and an ever greater saving in live labor, an increase in labor productivity is stimulated. Certain traditional industries have gradually fallen into decline and new industries have kept appearing. This has brought about the social circulation of laborers. On the other hand, the concrete process of production in social mass production also calls for maintaining the relative stability of skilled workers to ensure the continuous development of production. The introduction of the labor contract system can bring about the dialectical unity of the mobility and stability of laborers.

Second, the labor contract system is inline with the needs of the development of our planned commodity economy. The planned commodity economy requires various sectors of the national economy and enterprises to organize production and operating activities in line with market needs under the guidance of state plans, apart from necessarily fulfilling mandatory plans handed down by the state. This will naturally give rise to changes in the labor requirements of various sectors and enterprises in regard to quantity and quality. The distribution and redistribution of labor are called for. The introduction of the labor contract system can make for the flexible readjustment of the labor force and the realization of the aim of bringing the labor force under social control.

Third, the labor contract system meets the demand of strengthening enterprise vitality. For an enterprise to really become a commodity producer or operator that is relatively independent, in full charge of its own operations and responsible for its own profits and losses--this not only calls for decision-making power in production and operation but also the power to recruit workers. Having introduced the labor contract system, an enterprise has more power to recruit workers. People needed for production can get in and those not needed can go. A rational composition of laborers is maintained. Production is organized according to a fixed number of workers and a fixed quota. A boost is given to labor productivity and economic results.

Fourth, the labor contract system is in line with the character of socialist labor. In the socialist period, people's labor is of a dual nature. It is labor directly serving society and also an individual means of making a living. Labor has not become the first necessity of life. People want to make the best choice of work according to their own abilities, their preferences, their physical conditions, and so forth. The workers' choice of work helps in the development of talent and in arousing their initiative and creativity at work. The introduction of the labor contract system vests workers with such a right.

Fifth, the labor contract system meets the needs of labor legislation. Comrade Deng Xiaoping pointed out: "The relations between the state and enterprises, among enterprises, and between enterprises and individuals must also be legally defined. The contradictions between them must, in most cases, be solved legally." The labor contract system entirely fits in with and embodies this principle. The introduction of the labor contract system provides legal protection for the labor relations established between both sides through the signing of a labor contract.

We believe that under the impetus of the economic reform, the labor contract system marked with Chinese characteristics and full of life and vitality can surely be universally introduced throughout the country.

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